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Contents

Financial Highlights

	Continuing operations 2012	2011
Revenue	£26 1m	£15 5m
Operating profit/(loss) before amortisation and exceptional items	£0 8m	£(5 3)m
Operating loss	£(1 7)m	£(7 1)m
Loss before taxation	£(1 6)m	£(7 0)m
Basic earnings/(loss) per share	0 04p	(7 19)p
Diluted earnings/(loss) per share	0 04p	(7 19)p

	Group 2012	2011
Profit/(loss) for the period from continuing operations	£0 04m	£(6 7)m
Loss for the period from discontinued operations	–	£(0 2)m
Profit/(loss) for the period	£0 04m	£(6 9)m
Basic profit/(loss) per share	0 04p	(7 48)p
Diluted profit/(loss) per share	0 04p	(7 48)p
Cash	£3 7m	£4 1m
Total equity	£19 8m	£18 8m

The year ended 31 May 2012 produced revenue of £26 1m with an operating profit before exceptional items and the amortisation of intangibles of £0 8m, compared with the prior year revenue of £15 5m with a £5 3m operating loss before exceptional items from continuing operations

Revenue included £13 1m (2011 £3 4m) for the Wireless business and £13 0m (2011 £12 1m) for the Broadband business Operating profit pre exceptionals and intangible amortisation was split £0 7m Wireless, £0 6m Broadband and central costs of £0 5m Cash at the end of the year of £3 7m was slightly down from last year's £4 1m

Whilst the business has returned to profitability, the Board is mindful of its plans for continued growth, and has therefore decided to recommend no annual dividend in respect of the financial year just ended

The Wireless business has continued to grow strongly under its first full year of Filtronic ownership, and during the year it was rebranded from Isotek to Filtronic Wireless

The Group continues to trade as two separately reported business segments, Wireless and Broadband

Wireless Business

Wireless continued to deliver strong half on half growth to produce a year's sales of £13 1m (H1/H2 £5 2m/£7 9m) versus a prior year second half of £3 1m (note that the business was acquired near to the end of the first half) As multiple products moved into volume production for 4G (LTE) network rollouts, volume sales and a favourable product mix moved the business into profitability in the second half and for the year as a whole The year's operating profit of £0 7m was a significant improvement on the first half loss of £0 4m, and on last year's £2 0m loss for the full year

US LTE end users accounted for over 80% of Wireless sales as US operator network rollouts continued to lead European and rest of world demand

The group has continued to invest in Wireless engineering, sales and marketing resources in order to support existing programmes and to develop additional products to support customers upgrading their 3G and 4G mobile networks

Broadband Business

Broadband saw a 7% improvement in revenues to £13 0m (2011 £12 1m), in line with our June trading update As with Wireless, the segment's second half return to profitability delivered an operating profit for the year of £0 6m (2011 £2 5m loss)

The second half performance was boosted by end-of-programme purchases by a major customer that will not be repeated Cost reduction actions taken towards the end of the prior financial year, as well as further reductions this year, contributed significantly to the return to profitability

Management

Hemant Mardia joined Filtronic in 1984 and was appointed CEO in 2008 After 28 years with Filtronic, Hemant has decided to leave the business During this time the business has been restructured and emerges as a leader in the supply of components for next generation Wireless networks

The Board expresses its sincere appreciation for Hemant's contribution to the development of Filtronic and wishes him every success for the future Hemant will leave Filtronic following the AGM, 21 September 2012 A planned handover period is underway with Alan Needle, an existing Board member, becoming CEO

Alan originally joined Filtronic in 1986, starting the Wireless Infrastructure Division Filtronic went public in 1994 when Alan joined the main board He became CEO of the Wireless Division, Broadband and the Defence businesses in 2001

With the acquisition of Isotek in 2010 Alan rejoined the Filtronic main board as Head of the Wireless Infrastructure Division Alan has a wealth of experience in all aspects of Filtronic's activities

Outlook

The volume of data traffic generated by mobile devices continues to increase rapidly it has grown 33-fold in the past five years, and is projected to grow a further 18-fold in the next five In particular, changes in content-viewing habits have resulted in a surge in video traffic, which currently represents 50% of mobile data traffic and is expected to rise to 70% by 2016

Wireless infrastructure demand continues to be driven by major US network rollouts including Sprint, AT&T and T-Mobile as well a number of smaller operators Filtronic is accessing this market through major OEMs such as Ericsson and Alcatel Lucent, as well as by direct sales to operators The Wireless business currently has a strong order book and more than 75% of first half sales are expected to continue to be based on US demand European demand is developing and is expected to provide growth opportunities in the following financial year

The Broadband business is developing its market with next generation radio modules ("E-band") and microwave components for aerospace applications The E-band products enable the delivery of high data rate mobile services in dense urban areas, and sales are expected to grow in line with this developing market Whilst these revenues are expected to build progressively over the coming 18 months to offset the decline in demand for our traditional radio modules, these new products are not expected to produce overall revenue growth in Broadband until FY2014

The release of new spectrum to enable the continued growth in mobile traffic will require significant network investment by operators, and this is expected to benefit both Filtronic's Wireless and Broadband businesses

Finally, I should like to thank all staff in the business for their contribution over the past year

Howard Ford
Chairman
23 July 2012

Summary

Following the acquisition of the Wireless business in November 2010 the business has completed its first full year with two trading segments, the Wireless and Broadband businesses

The Group has returned to profitability (before intangible amortisation) and continues to execute its strategy for growth by expanding its addressable market with a widening range of products and a more diversified customer base

Actions previously taken to grow Wireless volumes and improve product margins have delivered profits for the year and the Broadband business has also realised the benefits from prior cost reduction actions to enable a return to profit for the year

Operations

The Wireless business develops and markets innovative customised filters and combiners, which enable operators to use their existing network infrastructure to overlay 3G and 4G (LTE) services In addition we provide OEM customers with next generation filter solutions for their 4G (LTE) basestation units Our products can bring significant cost savings versus alternative solutions by improving the use of available spectrum

The Broadband business designs and manufactures customised microwave electronic sub assembly components that are integrated by OEM's into radios and by a leading radar manufacturer into its aerospace/security products The OEM radios provide the backhaul links for telecom networks, particularly the mobile base station market Filtronic is a leading merchant supplier of transceivers to this market

Wireless sales have grown progressively over the last 3 half-year periods, £3 1m to £5 2m to £7 9m Margins have been significantly improved as a number of products have moved into full volume rollout with cost reductions implemented as scheduled Improved margins and product mix have moved the business into profitability with a £1 1m second half profit contributing to a £0 7m profit for the year

Broadband enjoyed a stronger second half with revenue of £7 7m giving a £0 9m year on year sales increase Better than forecast end of life deliveries to Ceragon contributed significantly to this improvement These products are being displaced by Ceragon's in house solution during the first half of the coming financial year The H2 sales produced a £0 9m second half Broadband profit giving a £0 6m operating profit for the year

The Group continues to invest in new product development, investing £4 8m in R&D during the year This included work supported by a research grant awarded by Yorkshire Forward with support from the European Regional Development Fund which assisted in the development of an E-band product to target the emerging market for 4G mobile broadband services Following the completion of this work in late 2011, Broadband R&D costs were reduced whilst Wireless R&D was increased to address further Wireless related opportunities in this growing market

Operational cash outflows of £0 6m, and capex of £0 6m, were partially offset by share issues of £0 8m to hold the cash outflow to £0 4m in the year

Business Review – Chief Executive Officer's Operating Review

Wireless Business

During the second half year, US network operators including, in particular, Sprint progressed their LTE network rollout programmes for growing smart phone use

This US network upgrade activity, which provided demand for Filtronic products from key OEM relationships on several major programmes, is expected to continue during the coming financial year As expected, the development of the 4G (LTE) market in Europe remains behind that of the USA due to regulatory licence timing

The opportunity for the Wireless business during FY2013 is to continue to secure participation on these and new volume programmes The business continues to plan for a significant increase in Wireless revenues for the year, and is well placed to do so with a strong opening order book

Broadband Business

Although there are increasing revenues and encouraging new opportunities in E-band and aerospace, following end of life purchases, revenue from Ceragon is in decline The new products revenues are expected to build progressively over the coming 18 months to offset the decline in demand for our traditional radio modules, however these new products are not expected to produce overall revenue growth in Broadband until FY2014

Employees

At 31 May 2012, the group employed 161 people (2011 159) including 57 (2011 51) in the Wireless business

On a personal note I wish to say that I have been privileged to hold several key positions in Filtronic and as CEO I have enjoyed leading the Business through a time of significant change I would like to thank the Board for its support and would also like to give special thanks and personal appreciation to staff, customers and shareholders I wish the Company continued success in the future

Hemant Mardia
Chief Executive Officer
23 July 2012

Results

The year ended 31 May 2012 generated revenue of £26 1m (2011 £15 5m), resulting in an operating profit before intangible amortisation, and exceptional items of £0 8m (2011 £5 3m loss from continuing operations) The group reported a breakeven £0 0m for the period from continuing operations (2011 £6 7m loss), reflecting a £2 4m amortisation of acquisition related intangibles offset by £1 7m tax credit Revenue and operating results by segment (note 3) are the main key performance indicators used by the group The operating results are discussed in the Chief Executive's Operating Review, along with a review of the business

Net finance income

The group ended the year with net cash of £3 7m (2011 £4 1m) but generated immaterial net finance income (2011 £0 1m), reflecting low interest rates on reduced cash deposits

Taxation

The tax credit of £1 7m includes a £0 4m recognition of deferred tax assets related to past losses of the Wireless business A further £0 9m credit reported is a deferred tax liability release related to the intangible amortisation Neither of these items have had a cash impact, however a further £0 4m tax credit relates to cash received from HMRC in respect of a Broadband research and development tax claim

Capital expenditure

Capital expenditure of £0 6m (2011 £0 9m) included £0 4m for the Broadband business

Research and development costs

Research and development costs of £4 8m (2011 £3 5m), which represented 18 2% (2011 22 7%) of revenue were expensed Offsetting these costs, Yorkshire Forward grant income of £0 5m (2011 £0 3m), was reported under other operating income No research and development costs were capitalised in the balance sheet

Working capital

At 31 May 2012 net working capital was £5 1m (2011 £2 1m) reflecting the increased level of activity within the Wireless business Net working capital comprised inventories of £3 2m (2011 £1 7m), receivables of £10 3m (2011 £5 9m) and payables of £8 4m (2011 £5 5m)

Cash flow

Cash outflow from operating activities was £0 6m (2011 £4 4m) which included a cash inflow from taxation of £0 5m (2011 nil) Net cash inflow from financing activities was £0 8m (2011 £0 7m outflow) and related to the February 2012 share issue The closing cash balance as at 31 May 2012 was £3 7m (2011 £4 1m)

Dividend

Mindful of its plans for continued growth, the Board does not recommend an annual dividend in respect of 2011/12 (2011 nil)

Michael Brennan
Chief Financial Officer
23 July 2012

Introduction

Filtronic supplies microwave and base station filter products for the Wireless telecommunications market The business is in a fast-changing sector with a small number of sophisticated customers, demanding performance standards and international competition, all of which pose risks to the business

Market

We supply a niche range of products to a small number of large OEM customers for both the Broadband and Wireless businesses as well as a growing number of network operators in the Wireless business The loss of any of these customers, or any material reduction in orders from any such customers may have a material adverse effect upon Filtronic's financial condition With the rapid evolution of product technology and other corporate decisions the size of our addressable market may be affected We may also fail to forecast market movements correctly so missing opportunities or wrongly predicting product longevity

Manufacturing

In most of the products, 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

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 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

The Broadband business operates a leased manufacturing location, located within the facility of our major semiconductor supplier The Wireless business relies for the manufacture of its products on a large Chinese turnkey manufacturer that provides favourable supply and financing terms The loss of this supplier or a material change to supply terms could have a material adverse effect on the Group

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, 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 key staff, the loss of whom could seriously impact the rate of introduction of new products and technologies

Financial management

A large proportion of sales is denominated in US dollars with the cost base substantially in sterling and the Chinese Yuan, 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 US dollars

We have sold four divisions of the group in the past eight years We have provided warranties in support of these transactions, covering 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 and Defence Electronics business, some of which have been settled or rejected, and may receive claims in future related to these current and future commitments

Goodwill and Going Concern

With the acquisition of the Wireless business, goodwill and intangibles have arisen If the Wireless business does not develop as anticipated then this may have an adverse impact upon business performance which may result in a write down of the goodwill and/or the intangibles

The directors have considered going concern matters and whilst they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, it remains possible that sufficient events with material adverse impacts on the business could occur such as to change this expectation

Executive directors

Hemant Mardia (aged 50) has been an executive director since 2007 and Chief Executive Officer since 2008 Since 1996 he has been Managing Director of the Broadband (PTP) business 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

Michael Brennan (aged 52) was appointed as an executive director and Chief Financial Officer on 18 September 2009 Prior to joining Filtronic he was Finance Director of GTL Resources plc Previously he held finance positions with Petroplus Refining Teesside Limited and various ICI businesses

Alan Needle (aged 57) was appointed as an executive director on 16 November 2010 Prior to the acquisition of the Wireless business he was Head of Wireless Infrastructure of Isotek Electronics Limited, had been an Executive Director of Filtronic plc until January 2006, and Chief Executive of the Wireless Infrastructure Division of Filtronic plc He is a Chartered Engineer and a Fellow of the Institute of Electrical Engineers

Non-executive directors

Howard Ford (aged 61) has been a non-executive director since 2008 He was appointed non-executive Chairman on 18 September 2009 He has many years of operational experience in the IT and telecoms sector with IBM Europe, BT/Cellnet and Equant Network Services where as Managing Director the company was listed on the New York Stock Exchange and the Paris Bourse until its takeover by France Telecom in 2005 He is currently the non-executive Chairman of Cambridge Semiconductor Limited, Light Blue Optics Limited and ZBD Displays Limited and has also served on the Boards of a UK Charity and a number of privately held companies in the UK and France

Graham Meek (aged 65) 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 is a non-executive director of Capital Gearing Trust plc and is currently acting chairman of King's College Hospital NHS Foundation Trust

Reginald Gott (aged 55) has been a non-executive director since 2006 He was appointed as chairman of the remuneration committee on 6 June 2008 He has recently been appointed Chief Executive of Resource Group Limited From 2002 to 2008 he was an executive director of FKI plc, an international diversified engineering group, and from 2009 to 2012 he was Chief Executive of Nuaire Group He has an extensive background in the machinery, automation and controls segments of the capital goods markets across Europe and North America

The directors present their report and the audited financial statements for the year ended 31 May 2012

Principal activities

The principal activities of the group are the design and manufacture of broadband microwave and base station filter products for Wireless telecommunications systems

Business review

The business review on pages 4 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 26 The position at the end of the year is shown in the balance sheet on page 28

The directors are not recommending payment of an annual dividend (2011 nil)

Research and development

Research and development costs of £4 8m (2011 £3 5m) wholly related to continuing operations Grant income of £0 5m (2011 £0 3m) was received to assist with part of these costs

Directors and their interests

The directors of the company during the year were as follows

Hemant Mardia
Michael Brennan
Alan Needle
Howard Ford
Graham Meek
Reginald Gott

Details of directors' interests in the share capital of the company are set out in the remuneration report on pages 18 to 22

Howard Ford and Reg Gott retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting

Graham Meek, having served on the Board for more than nine years, retires and being eligible, offers himself for re-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 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

Directors' conflicts of interest

There are no declarations to be made under Article 182 of The Companies Act 2006

Share capital

The company's share capital consists of 10p ordinary shares The rights and obligations attached to each share are equal There are no limitations on holding or transfer of the shares The Board has no powers to issue or buy back the company's shares, other than those approved by the shareholders at the Annual General Meeting held on 23 September 2011

Substantial shareholdings

The following shareholders have indicated a holding of 3% or more of the issued share capital of 96,821,293 10p ordinary shares as at 19 July 2012

	Number of 10p ordinary shares	% of issued share capital
Aberforth Partners LLP	16,593,778	17 1%
Prudential plc	13,378,056	13 8%
Henderson Global Investors	9,596,422	9 9%
Aviva plc	6,111,700	6 3%
Legal & General Investment Management Limited	5,575,421	5 8%
Professor John David Rhodes and connected parties	3,794,769	3 9%
	55,050,146	56 8%

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

The Chief Executive Officer is the Board member responsible for human resources

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, the major manufacturing site has 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 The group operates a UK-wide 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 in-house manufacturing sites have established environmental management systems and have achieved ISO 14001 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 £500 (2011 £450) 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 2012 trade payables of £8 4m represented 138 days' purchases, calculated in accordance with the requirements of the Companies Act

Disclosure of information to the auditor

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 auditor is 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 auditor is aware of that information

Responsibility statement of the directors

The directors whose names appear on page 9 confirm that to the best of their knowledge

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole, and
- the Chairman's Statement and Business Review which form part of the Report of the Directors, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties that they face

Auditor

A resolution to re-appoint KPMG Audit Plc as auditor will be proposed at the Annual General Meeting

By order of the Board
M Moynihan
Company Secretary
23 July 2012

The Combined Code on Corporate Governance

The Board of Directors of Filtronic plc is committed to maintaining high standards of corporate governance The Board has prepared this report with reference to the Combined Code on Corporate Governance issued by the Financial Reporting Council as revised in 2008 ("the Code") For the year ended 31 May 2012 the directors confirm that the company has complied with the provisions of the Code

The Board is currently comprised of six directors, the Chairman, two non-executives and three executive directors For the current reporting period, the Company is deemed to be a "smaller company" as defined in provision A 3 2 of the Combined Code 2008 One of the non-executive directors, Reginald Gott, meets all of the specific criteria for independence set out in the Combined Code The other non executive director, Graham Meek, does not meet all of the requirements for independence set out in the Code since he has been a director for more than nine years However Mr Meek is considered to be independent in character and judgement He is the senior independent director and provides valuable advice to the company as well as continuity in the context of the recent corporate activity and Board changes

Internal control

The Board has overall responsibility for establishing, maintaining and monitoring 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

The Board's approach to risk management is aimed at early identification of key risks to the group's business and strategy, followed by an evaluation of those risks and the probable impact of those risks and the steps required to mitigate the likely effects The executive directors report formally on key risks for each business unit at each meeting

(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 Officer has been set out in writing and agreed by the Board

The audit committee, which comprises all of the non-executive directors including the Chairman 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 and a formal risk management reporting system for non-financial risk management

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 and concentrates upon key performance indicators identified and updated as part of this budgetary control process 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

(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 All areas of operations 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 two 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 Non-executive directors who have served longer than nine years on the Board are subject to annual re-election

Graham Meek joined the company in 1999 and the Board has carefully considered his independence He contributes significantly through his financial expertise and considerable knowledge of the company He has provided continuity as well as contributing to the overall balance of the Board The Board has decided that Graham Meek is an independent non executive director

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

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 Howard Ford, and the other members are the independent non executive directors Graham Meek and Reginald Gott The nominations committee's duties are confined to the nomination of appointments, re appointments and termination of employment or engagement of directors and the company secretary

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

The remuneration committee

The remuneration committee is chaired by Reginald Gott Graham Meek, the other independent non executive director, and Howard Ford, the Chairman of the Board, are members 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 During the year the business discussed and considered at the Remuneration Committee included approval of bonus payments or none made in respect of the previous financial year FY2010/11, review of compensation structure of employees across the group particularly following the Wireless business' acquisition, agreement of the terms of the ESOP plan and reviewing and agreeing on the terms and the documentation in respect of the issue of a further invitation to all UK employees under the Filtronic Share Save plan

The remuneration committee met twice during the year

The audit committee

The audit committee is chaired by Graham Meek, the senior non-executive director The other members are Reginald Gott and Howard Ford, the Chairman of the Board (who was independent on appointment in accordance with the provisions of the Combined Code 2008) 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 twice 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, 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 2012 was as follows

Directors Attendance Table - FY2012

	Board	Audit	Remuneration	Nominations
Director attendance	11	2	2	3
Executives				
Hemant Mardia	11	n/a	n/a	n/a
Mike Brennan	11	n/a	n/a	n/a
Alan Needle (appointed 15 November 2010)	10	n/a	n/a	n/a
Non-executives				
Howard Ford (Chairman)	11	2	2	3
Reginald Gott	11	2	2	3
Graham Meek	11	2	2	3

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 co uk which was updated during the year to include the Wireless business

Going concern

The group's business, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 4 to 8 The financial position of the group, its cash flows, and its liquidity position are described in the Financial Review on page 6 Note 37 to the financial statements describes and quantifies exposures to liquidity, credit, interest rate and foreign currency risk and how they are managed Also in note 37 capital management is described

At 31 May 2012 the group had a cash balance of £3 7m

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 2011 to 31 May 2012 the remuneration committee consisted of the following non-executive directors

Reginald Gott (Chairman)
Graham Meek
Howard Ford

The committee receives advice in its deliberations concerning the remuneration of the executive directors from the Chief Executive Officer, Hemant Mardia 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) Executive directors bonuses
The executive directors were participants in an annual bonus scheme during the year under which a maximum of 30% of salary was payable to Hemant Mardia, Michael Brennan and Alan Needle subject to profit and cash targets and personal targets, the achievements of which have been assessed by the remuneration committee

The following bonuses were awarded in the year to Hemant Mardia £27,038 (2011 £nil), Michael Brennan £15,000 (2011 £nil) and Alan Needle £15,000 (2011 £nil)

No non-recurring bonus arrangements were put in place in the year ended 31 May 2012

(iii) Bonus scheme
The remuneration committee has agreed an approach for management incentives for the year ending 31 May 2013 of an annual bonus for performance in the year, based on profit and cash targets The level of up to 30% of annual salary for executive directors and up to 25% of annual salary for senior managers has been agreed for each of these bonuses The annual bonus will be assessed against the achievement of profit and cash targets in the year ended 31 May 2013

(iv) Performance share plan
A performance share plan was approved by shareholders at the Annual General Meeting in September 2008 During the year, under the plan, no share awards were made

(v) Sharesave plan
A sharesave plan was approved by shareholders at the Annual General Meeting in September 2008 All employees including executive directors are eligible The first offer under the sharesave plan was made in February 2009 and matured in February 2012 Options granted under this offer are exercisable at 25p per share A second offer under the sharesave plan was made in November 2010 and a third offer under the sharesave plan was made in May 2012

(c) Company policy on contracts of service

Hemant Mardia, Michael Brennan and Alan Needle, the executive directors, all have rolling service contracts Under Hemant Mardia's service contract the notice period for termination by either party is twelve months Under Michael Brennan's service contract the notice period for termination by either party is six months Under Alan Needle's service contract the notice period for termination by either party is six months, but 12 months until 15 November 2012 There are no specific compensation commitments for early termination in the service contracts

(d) Company pensions policy

The company's policy is to offer executives membership of the Filtronic plc Stakeholder Pension Plan on the same basis as all other employees of the company The plan is a defined contribution scheme The maximum contribution the company makes 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

The pension scheme inherited from the acquisition of the Wireless business is also a defined contribution scheme The maximum contribution the company makes to the plan for UK employees is 10% of pensionable salary if the member makes a contribution of 5% pensionable salary All employees are also entitled to death in service benefit of four times pensionable salary and long term disability insurance

US employees contribute to a defined contribution plan under Section 401(k) of the Internal Revenue Code 6% of pensionable salary is contributed by employees and this is matched by the company All employees are also entitled to death in service benefit of two times salary to a maximum of $100,000

(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 agreements for services 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 six months notice for the Chairman and on three months notice for the other non-executive directors 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, performance shares, bonuses or pension benefits

The information on pages 20 and 21 has been audited

Directors' remuneration

	Salary or fees 2012 £000	Bonuses 2012 £000	Benefits 2012 £000	Total remuneration excluding pension contributions 2012 £000	2011 £000
Executives					
Hemant Mardia	183	27	9	219	198
Michael Brennan	101	15	8	124	107
Alan Needle	101	15	10	126	54
Non-executives					
Howard Ford	70	-	1	71	71
Graham Meek	40	-	-	40	40
Reginald Gott	40	-	-	40	40
Total 2012	535	57	28	620	510
Total 2011	484	-	26	510	

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

Company's pension contributions to defined contribution schemes

	Pension contributions 2012 £000	2011 £000
Hemant Mardia	15	14
Michael Brennan	8	8
Alan Needle	10	5
	33	27

Directors' shareholdings

	2012	2011
Alan Needle	**2,196,142**	2,064,707
Hemant Mardia	**382,525**	159,813
Michael Brennan	**53,733**	40,400
Howard Ford	**93,626**	42,204
Reg Gott	**102,159**	28,515
Graham Meek	**89,722**	50,000
	2,917,907	2,385,639

All of the above shareholdings are held beneficially and include holdings of director's connected parties

Alan Needle purchased 169,485 shares at 22 5p on 2 August 2011, 29,200 shares at 16 75p on 11 November 2011, and sold (in accordance with the terms of the Isotek acquisition's working capital adjustment mechanism) 67,249 shares at 24 5p on 3 February 2012

Hemant Mardia and his wife each purchased 55,556 at 22 5p on 2 August 2011, 24,600 shares each at 16 75p on 11 November 2011, and 31,200 shares each at 25p on 4 April 2012

Michael Brennan purchased 13,333 shares at 22 5p on 2 August 2011

Reg Gott's wife purchased 44,444 shares at 22 5p on 2 August 2011 and 29,200 shares at 16 75p on 11 November 2011

Howard Ford purchased 22,222 shares at 22 5p on 2 August 2011, and on 11 November 2011 his wife purchased 29,200 shares at 16 75p

Graham Meek purchased 22,222 shares at 22 5p on 2 August 2011 and 17,500 shares at 16 75p on 11 November 2011

Directors' interests in share awards

Performance share plan	Vesting date	2011	Granted during the year	Cancelled during the year	2012
Hemant Mardia	29 July 2012	378,239	–	–	**378,239**
	29 November 2013	305,126	–	(47,626)	**257,500**
Michael Brennan	2 September 2012	108,108	–	–	**108,108**
	29 November 2013	114,286	–	–	**114,286**
		905,759	–	(47,626)	**858,133**

Hemant Mardia's share awards include those of his wife, who was employed by the group until 31 May 2012, and retains awards vesting on 29 July 2012

Directors' interests in share options

Sharesave plan	Exercise period	Option price	2011	Granted during the year	Exercised during the year	Cancelled during the year	2012
Hemant Mardia	01/04/2012 – 01/10/2012	25p	62,400	–	(62,400)	–	**–**
	01/11/2013 – 30/04/2014	34 2p	8,842	–	–	–	**8,842**
Michael Brennan	01/11/2013 – 30/04/2014	34 2p	26,315	–	–	(26,315)	**–**
	01/05/2015 – 31/10/2015	22 6p	–	30,106	–	–	**30,106**
Total all directors			97,557	30,106	(62,400)	(26,315)	**38,948**

Hemant Mardia's share options include those awarded to his wife, who was employed by the group until 31 May 2012

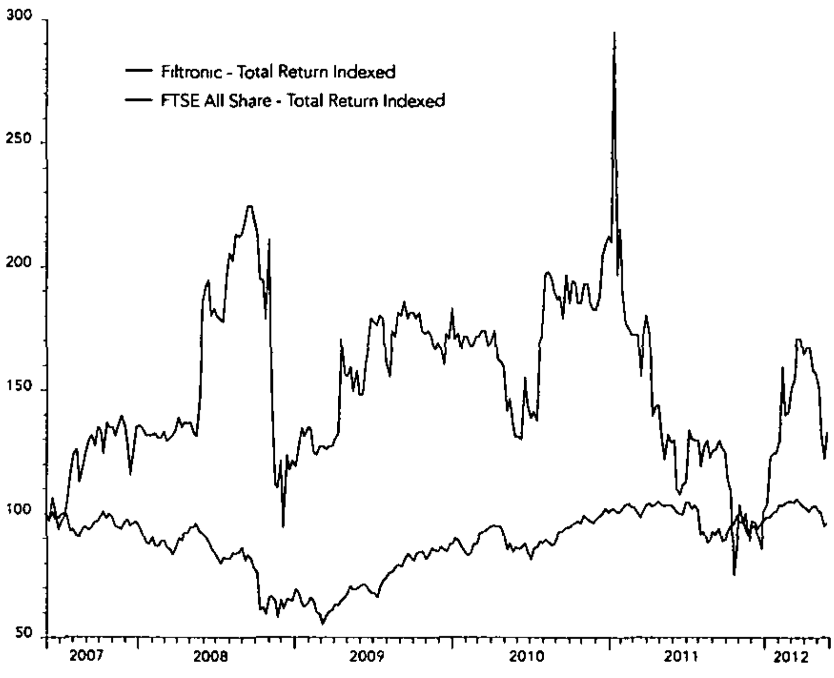
The closing middle market share price on 31 May 2012 was 25p, and on 31 May 2011 it was 23p The range of closing middle market share prices during the year ended 31 May 2012 was 14p - 35p

There were no changes to the directors' interests between 31 May 2012 and 23 July 2012 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 2007 to 31 May 2012 Weekly Indexed



Source Thomson Datastream

Approved by the Board on 23 July 2012 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 IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006 They have 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 complies 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditor's report to the members of Filtronic plc

We have audited the financial statements of Filtronic plc for the year ended 31 May 2012 set out on pages 26 to 64 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 May 2012 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU, and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- information given in the Corporate Governance Statement set out on pages 14 to 17 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a Corporate Governance Statement has not been prepared by the company

Under the Listing Rules we are required to review

- the directors' statement, set out on page •, in relation to going concern,
- the part of the Corporate Governance Statement on page • relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration

David Morritt (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW
23 July 2012

Consolidated Income Statement

for the year ended 31 May 2012

Continuing operations	note	Group 2012 £000	2011 £000
Revenue		**26,082**	15,523
Operating profit/(loss) before amortisation and exceptional items		**768**	(5,260)
Amortisation of intangibles		**(2,419)**	(1,209)
Exceptional items	5	**–**	(611)
Operating loss	4	**(1,651)**	(7,080)
Finance income	11	**16**	79
Loss before taxation		**(1,635)**	(7,001)
Taxation	12	**1,670**	326
Profit/(loss) for the period from continuing operations		**35**	(6,675)
Loss for the period from discontinued operations		**–**	(265)
Profit/(loss) for the period		**35**	(6,940)
Basic earnings/(loss) per share			
Continuing operations	13	**0 04p**	(7 19)p
Discontinued operations	13	**–**	(0 29)p
Basic earnings/(loss) per share	13	**0 04p**	(7 48)p
Diluted earnings/(loss) per share			
Continuing operations		**0 04p**	(7 19)p
Discontinued operations		**–**	(0 29)p
Diluted earnings/(loss) per share		**0 04p**	(7 48)p

The profit for the period is attributable to the equity shareholders of the parent company Filtronic plc

Consolidated Statement of Comprehensive Income

for the year ended 31 May 2012

	Group	
	2012	2011
	£000	£000
Profit/(loss) for the period	**35**	(6,940)
Currency translation movement arising on consolidation	**16**	(32)
	16	(32)
Total comprehensive income for the period	**51**	(6,972)

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

For the company, there were no other items of comprehensive income other than the loss for the year Accordingly, no company statement of comprehensive income has been presented

		Group	
			(Restated)
		2012	2011
	note	**£000**	£000
Non-current assets			
Goodwill and other intangibles	15	**10,491**	12,910
Property, plant and equipment	16	**2,375**	2,485
		12,866	15,395
Current assets			
Inventories	17	**3,198**	1,677
Trade and other receivables	18	**10,277**	5,763
Tax receivable		**-**	114
Deferred tax	19	**887**	420
Cash and cash equivalents		**3,745**	4,120
		18,107	12,094
Total assets		**30,973**	27,489
Current liabilities			
Trade and other payables	20	**8,422**	5,485
Provision	21	**565**	437
Deferred tax	19	**600**	653
Deferred income	22	**267**	17
		9,854	6,592
Non-current liabilities			
Deferred tax	19	**1,162**	1,959
Deferred income	22	**116**	108
		1,278	2,067
Total liabilities		**11,132**	8,659
Net assets		**19,841**	18,830
Equity			
Share capital	24	**9,681**	9,287
Share premium	25	**5,083**	4,683
Translation reserve	26	**(16)**	(32)
Retained earnings	28	**5,093**	4,892
Total equity		**19,841**	18,830

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

Company member 2891064

Approved by the Board on 23 July 2012 and signed on its behalf by

Hemant Mardia

Chief Executive Officer

Consolidated Statement of Changes in Equity
for the year ended 31 May 2012

	Group	
	2012	2011
	£000	£000
Opening total equity	**18,830**	19,885
Total comprehensive income for the period	**51**	(6,972)
New shares issued (net of issue costs)	**794**	6,538
Share-based payments	**166**	122
Dividends	**–**	(743)
Closing total equity	**19,841**	18,830

Company Statement of Changes in Equity
for the year ended 31 May 2012

	Company	
	2012	2011
	£000	£000
Opening total equity	**18,395**	14,066
Total comprehensive income for the period	**(315)**	(1,557)
New shares issued, net of issue costs	**794**	6,538
Share-based payments	**120**	91
Dividends	**–**	(743)
Closing total equity	**18,994**	18,395

Consolidated Cash Flow Statement

for the year ended 31 May 2012

	note	Group 2012 £000	2011 £000
Cash flows from operating activities			
Profit/(loss) for the period		35	(6,940)
Loss on sale of discontinued operations		-	265
Taxation		(1,670)	(326)
Finance income		(16)	(79)
Operating loss	35	(1,651)	(7,080)
Share-based payments		166	122
Loss on disposal of plant and equipment		(5)	-
Depreciation		697	523
Amortisation of intangibles		2,419	1,209
Movement in inventories		(1,521)	476
Movement in trade and other receivables		(4,514)	(724)
Settlement of option premia debt acquired with Isotek		-	1,194
Movement in trade and other payables		2,937	178
Movement in provision		128	(269)
R&D tax credit received		467	-
Change in deferred income including government grants		258	-
Net cash used in operating activities	35	(619)	(4,371)
Cash flows from investing activities			
Interest received		16	79
Acquisition of plant and equipment		(579)	(925)
Proceeds on sale of assets		8	19
Acquisition of subsidiary, net of cash acquired		-	(4,162)
Share issue costs		-	(325)
Acquired loan repaid		-	(1,400)
Sale of discontinued operations	36	-	(265)
Net cash used in investing activities	35	(555)	(6,979)
Cash flows from financing activities			
Dividends paid		-	(743)
Proceeds from issue of share capital (net of issue costs)		737	-
Proceeds from exercise of share options		57	-
Net cash from/(used in) financing activities	35	794	(743)
Movement in cash and cash equivalents		(380)	(12,093)
Currency exchange movement		5	(32)
Opening cash and cash equivalents		4,120	16,245
Closing cash and cash equivalents		3,745	4,120

Company Balance Sheet

at 31 May 2012

	note	Company 2012 £000	2011 £000
Non-current assets			
Investments in subsidiaries	14	**10,564**	10,564
Current assets			
Trade and other receivables	18	**10,405**	7,812
Cash and cash equivalents		**1,193**	2,953
		11,598	10,765
Total assets		**22,162**	21,329
Current liabilities			
Trade and other payables	20	**3,168**	2,934
Total liabilities		**3,168**	2,934
Net assets		**18,994**	18,395
Equity			
Share capital	24	**9,681**	9,287
Share premium	25	**5,083**	4,683
Retained earnings	28	**4,230**	4,425
Total equity		**18,994**	18,395

Approved by the Board on 23 July 2012 and signed on its behalf by

Company member 2891064

Hemant Mardia
Chief Executive Officer

Company Cash Flow Statement

for the year ended 31 May 2012

	Company 2012 £000	Company 2011 £000
Cash flows from operating activities		
Loss for the period	**(315)**	(1,557)
Finance costs	**-**	61
Finance income	**(110)**	(79)
Loss on sale of investment in subsidiary	**-**	265
Operating loss	**(425)**	(1,310)
Share-based payments	**120**	91
Movement in trade and other receivables	**(2,592)**	(5,730)
Movement in trade and other payables	**233**	(169)
Net cash used in operating activities	**(2,664)**	(7,118)
Cash flows from investing activities		
Interest received	**16**	79
Acquisition of subsidiary	**-**	(4,230)
Share issue costs	**-**	(325)
Sale of investment in subsidiary	**-**	(265)
Net cash from/(used in) investing activities	**16**	(4,741)
Cash flows from financing activities		
Dividends paid	**-**	(743)
Proceeds from issue of share capital (net of issue costs)	**737**	-
Proceeds from exercise of share options	**57**	-
Net cash from/(used in) financing activities	**794**	(743)
Decrease in cash and cash equivalents	**(1,854)**	(12,602)
Currency exchange movement	**94**	(61)
Opening cash and cash equivalents	**2,953**	15,616
Closing cash and cash equivalents	**1,193**	2,953

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 preparation

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

The directors have reviewed the projected 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 annual report

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

In publishing the Parent Company Financial Statements here together with the Group Financial Statements, the company has taken advantage of the exemptions in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of these approved Financial Statements

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

1 **Accounting policies** (continued)

Foreign currency translation (continued)

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

Revenue

Revenue is recognised for goods and services during the periods when the risks and rewards of ownership have been transferred to the customer, there is no continuing management involvement and the amount of revenue can be measured reliably 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

1 **Accounting policies** (continued)

Share-based payments

The group operated share option and share award schemes, under which share options and share awards were granted to certain employees The granting of the share options and share awards are share-based payments

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 or share awards 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

Business combinations

Business combinations are accounted for by applying the acquisition method

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities In assessing control, the group takes into consideration potential voting rights that currently are exercisable The acquisition date is the date on which control is transferred to the acquirer Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another

The group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the group to the previous owners of the acquiree, and equity interests issued by the group Consideration transferred also includes the fair value of any deferred consideration, which is undiscounted

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably

Transaction costs that the group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred

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

1 **Accounting policies** (continued)

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets

Goodwill is measured at cost less accumulated impairment losses In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee

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

Other intangible assets

Other intangible assets that are acquired by the group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset

The estimated useful lives for the current and comparative periods are as follows

- Intangibles relating to the core technology and know-how 4 5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate

Impairment charges

The carrying amounts of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment If any such indication exists, then the asset's recoverable amount is estimated For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU") Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes

1 **Accounting policies** (continued)

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount Impairment losses are recognised in profit or loss Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis

An impairment loss in respect of goodwill is not reversed In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

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

Defined contribution pension schemes

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

1 Accounting policies (continued)

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

Grants

Capital based grants are included within deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate

Grants that compensate the group for expenses incurred are recognised in profit or loss as other operating income on a systematic basis in the same periods in which the expenses are recognised

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

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

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

1 **Accounting policies** (continued)

Accounting developments

The following new standards have become effective from 1 June 2011 and hence, where relevant, have been reflected in the financial statements

- IAS 24 Related Party Disclosures (revised 2009,)
- Amendment to IFRIC 14 "Prepayments of a minimum funding requirement",
- IAS 1 "Presentation of financial statements" – presentation of statement of changes in equity, and
- IFRS 7 "Financial instruments disclosures" – amendments to disclosures,
- IFRIC 13 "Customer loyalty programmes" – fair value of award credit, and
- IAS 34 "Interim Financial Reporting – Significant events and transactions"

There are a number of standards and interpretations issued by the IASB that are effective for financial statements after this reporting period The following have not been adopted by Group

- Disclosures – Transfers of financial assets (amendments to IFRS 7) (effective for periods beginning on or after 1 July 2011)
- Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (effective for periods beginning on or after 1 July 2011)

The application of these standards and interpretations is not anticipated to have a material effect on the Group's financial statements

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 and other intangibles impairment

Goodwill and other intangibles are tested for impairment by reference to the expected cash generated by the business unit This is deemed to be the best approximation of value, but is subject to the same uncertainties as the cash flow forecast being used

2 Accounting estimates and judgements (continued)

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

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 the company and its subsidiaries These forecasts require the use of estimates and judgements about the future performance of the company and its subsidiaries

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

Capitalisation of Development Costs

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

Other certain research and development costs are likely to meet the definition of enhancement type costs, as they do not substantially improve the product, and therefore do not meet the definition of development costs to be capitalised

The process is to be continually reviewed to ascertain whether any development costs meet the criteria for capitalisation This requires various judgements by management as to whether the various criteria have been met

3 Segmental analysis

Operating Segments

IFRS 8 requires consideration of the chief operating decision maker ('CODM') within the group In line with the group's internal reporting framework and management structure, the key strategic and operating decisions are made by the CEO, who reviews internal monthly management reports, budget and forecast information as part of this Accordingly the CEO is deemed to be the CODM

Operating segments have then been identified based on the reporting information and management structures within the group The group has three customers representing individually over 10% each and in aggregate over 60% of revenue

The Group operates in two trading business segments

- The design and manufacture of transceiver modules and filters for backhaul microwave linking of base stations used in Wireless telecommunications networks (Broadband)
- The design of radio frequency conditioning product for base stations used in Wireless telecommunication networks (Wireless)

The Group also contains a central services segment that provides support to the trading businesses

In the table below reportable segment assets and liabilities include inter segment balances This has been included to reflect the assets and liabilities of the segment as monies are freely moved around the group to provide funding for working capital where required

	Broadband		Wireless		Central Services		Defence Electronics (Discontinued)		Inter Company Elimination		Total	
	2012 £000	2011 £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000
Revenue	**13,036**	12,136	**13,122**	3,387	**131**	–	**–**	–	**(207)**	–	**26,082**	15,523
Finance income	**–**	–	**–**	–	**16**	79	**–**	–	**–**	–	**16**	79
Depreciation and amortisation	**592**	487	**105**	36	**–**	–	**–**	–	**–**	–	**697**	523
Reportable segment profit/(loss)before exceptional items	**601**	(2,463)	**720**	(1,955)	**(422)**	(842)	**–**	(265)	**(131)**	–	**768**	(5,525)
Reportable segment profit/(loss) before income tax	**601**	(2,584)	**720**	(1,976)	**(406)**	(1,232)	**–**	(265)	**(131)**	–	**784**	(6,057)
Reportable segment assets	**9,755**	7,409	**9,434**	6,007	**19,611**	18,777	**–**	–	**–**	–	**38,800**	32,193
Capital expenditure	**426**	663	**153**	263	**–**	–	**–**	–	**–**	–	**579**	926
Reportable segment liabilities	**8,049**	6,693	**12,850**	8,838	**611**	383	**–**	–	**–**	–	**21,510**	15,914

3 **Segmental analysis** (continued)

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2012 £000	2011 £000
Depreciation and amortisation		
Reportable segment totals	**697**	523
Adjustments/amortisation of intangibles	**2,419**	1,209
Consolidated depreciation and amortisation	**3,116**	1,732
Loss before taxation		
Total profit/(loss) for reportable segments	**784**	(6,057)
Elimination of discontinued operations	**-**	265
Group/unallocated	**(2,419)**	(1,209)
Consolidated loss before taxation	**(1,635)**	(7,001)
Assets		
Total assets for reportable segments	**38,800**	32,193
Inter company	**(10,378)**	(7,255)
Group/unallocated	**2,551**	2,551
Consolidated total assets	**30,973**	27,489
Liabilities		
Total liabilities for reportable segments	**21,510**	15,914
Inter company	**(10,378)**	(7,255)
Consolidated total liabilities	**11,132**	8,659

3 **Segmental analysis** (continued)

Geographical information

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers Segment assets are based on the geographical location of the assets

Revenue by destination

	2012 £000	2011 £000
United Kingdom	3,500	838
Europe	12,446	11,256
Americas	5,589	620
Rest of the world	4,547	2,809
	26,082	15,523

Split of non-current assets by location

	2012 £000	(Restated) 2011 £000
United Kingdom	9,489	11,191
Americas	3,377	4,204
	12,866	15,395

Non-current assets relate to property, plant and equipment and intangible assets

4 Operating loss

Continuing operations	note	2012 £000	2011 £000
Revenue		**26,082**	15,523
Other operating income		**(476)**	(326)
Raw materials and consumables		**13,429**	10,435
Wages and salaries		**6,031**	5,016
Social security costs		**567**	509
Pension costs		**339**	277
Share-based payments	31	**166**	122
Staff costs		**7,103**	5,924
Amortisation of intangibles		**2,419**	1,209
Depreciation		**697**	523
Depreciation and amortisation		**3,116**	1,732
Other operating charges		**4,561**	4,838
Operating costs		**27,733**	22,603
Operating loss		**(1,651)**	(7,080)

The operating loss is stated after the exceptional items in note 5

Other operating income represents the amount claimed from Yorkshire Forward towards a research and development programme

5 Exceptional items

Operating loss is stated after charging exceptional items as follows

	2012 £000	2011 £000
Acquisition related costs	–	694
Vendor contribution towards acquisition costs	–	(300)
Integration costs relating to acquisition	–	75
Redundancy costs	–	142
	–	611

6 Operating items

	2012 £000	2011 £000
Operating loss is stated after charging		
Continuing operations		
Research and development costs	4,764	3,531
Operating lease rentals	179	138

7 Auditors' remuneration

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

	2012 £000	2011 £000
Company auditors		
Audit of the group and company financial statements	10	6
Company auditors and their associates		
Audit of subsidiaries financial statements pursuant to legislation	37	34
Other services pursuant to such legislation	7	10
Taxation services	11	5
Other services including acquisitions	–	150
	65	205

8 Employees

The average number of employees comprised

	2012 Number	2011 Number
Manufacturing	79	95
Research and development	56	49
Sales	2	1
Administration	15	14
	152	159

9 Compensation of directors

Details of the remuneration, pension entitlements and share options of the individual directors are set out in the remuneration report on pages 18 to 22 The compensation of the directors was

	2012 £000	2011 £000
Salary or fees	535	484
Bonuses	57	–
Benefits	28	26
Total remuneration excluding pension contributions and share-based payments	620	510
Pension contributions	33	27
Share-based payments	91	93
	744	630

The directors are related parties

10 Related party transaction

Chief Executive Officer, Hemant Mardia's wife's employment with the group ended on 31 May 2012 Total emoluments for the year including payments on leaving the Group amounted to £184,755 (2011 £96,000)

11 Finance income

	2012 £000	2011 £000
Interest income	**16**	79

12 Taxation

The reconciliation of the effective tax rate is as follows

	2012 £000	2011 £000
Loss before taxation		
Continuing operations	**(1,635)**	(7,001)
Loss before taxation	**(1,635)**	(7,001)

		2012 £000		2011 £000
Loss before taxation multiplied by standard rate of corporation tax in the UK	**26%**	**(419)**	27%	(1,925)
Disallowable items	**(7%)**	**120**	(2%)	114
Depreciation in advance of capital allowances	**(6%)**	**90**	(2%)	142
Trading losses utilised	**23%**	**(372)**	–	–
Impact of rate change on deferred liability	**18%**	**(290)**	–	–
Recognition of tax losses	**28%**	**(466)**	–	–
Adjustment in respect of prior years - R&D credit	**21%**	**(353)**	–	–
Foreign tax not at UK rate	**(1%)**	**20**	–	–
Pension contributions brought forward utilised	**–**	**–**	19%	(1,322)
Tax losses carried forward	**–**	**–**	(37%)	2,665
Taxation	**102%**	**(1,670)**	5%	(326)

13 Earnings/(loss) per share

	Group 2012 £000	Group 2011 £000
Profit/(loss) for the period		
Continuing operations	35	(6,675)
Discontinued operations	-	(265)
Profit/(loss) for the period	35	(6,940)
	000	000
Basic weighted average number of shares	95,843	92,873
Dilution effect of share awards	692	-
Diluted weighted average number of shares	96,535	92,873
Basic earnings/(loss) per share		
Continuing operations	0 04p	(7 19)p
Discontinued operations	-	(0 29)p
Basic earnings/(loss) per share	0 04p	(7 48)p
Diluted earnings/(loss) per share		
Continuing operations	0 04p	(7 19)p
Discontinued operations	-	(0 29)p
Diluted earnings/(loss) per share	0 04p	(7 48)p

14 Investments in subsidiaries

	Company Investments in subsidiaries £000
Cost	
At 1 June 2010	10,546
Additions	10,564
At 31 May 2011 and 31 May 2012	21,110
Impairment	
At 1 June 2010, 31 May 2011 and 31 May 2012	10,546
Carrying amount at 1 June 2010	-
Carrying amount at 31 May 2011	10,564
Carrying amount at 31 May 2012	**10,564**

The company's subsidiaries are related parties

The subsidiaries at 31 May 2012, which were directly owned by Filtronic plc, were as follows

Name of subsidiary	Country of incorporation	Description of equity held	Proportion held	Activity
Filtronic Broadband Limited	UK	1p ordinary shares	100%	Design and manufacture of microwave products for telecommunication systems
Filtronic Holdings UK Limited	UK	£1 ordinary shares	100%	Holding company
Isotek (Holdings) Limited	UK	1p ordinary shares	100%	Holding company
Owned by Isotek (Holdings) Limited				
Filtronic Wireless Limited	UK	1p ordinary shares	100%	Design and manufacture of Filtronic products for telecommunication systems
Filtronic Wireless Inc	USA	$1 ordinary shares	100%	Design and manufacture of Filtronic products for telecommunication systems
Isotek Limited	UK	1p ordinary shares	100%	Dormant company
Owned by Isotek Electronics Limited:				
Isotek Hong Kong Holdings Limited	Hong Kong	HK $1 ordinary shares	100%	Holding company
Owned by Isotek Electronics Limited				
Isotek Suzhou	China	USD $350,000 paid in share capital	100%	Design and manufacture of Filtronic products for telecommunication systems

15 Goodwill and other intangibles

	(Restated) Goodwill £000	Other intangibles (core technology) £000	Total £000
Cost			
Reported 31 May 2011	3,655	10,884	14,539
Hindsight adjustments made November 2011	(420)	–	(420)
Restated 31 May 2011 and 31 May 2012	3,235	10,884	14,119
Amortisation			
At 1 June 2011	–	(1,209)	(1,209)
Provided in year	–	(2,419)	(2,419)
At 31 May 2012	–	(3,628)	(3,628)
Restated carrying amount at 1 June 2011	3,235	9,675	12,910
Carrying amount at 31 May 2012	**3,235**	**7,256**	**10,491**

Goodwill and other intangibles relate to the acquisition of Isotek (Holdings) Limited

At 31 May 2011 the fair value of the acquired assets, liabilities, intangibles and goodwill were determined on a provisional basis pending finalisation of acquisition related adjustments Following this finalisation the intangibles and goodwill for the prior period at 31 May 2011, have been restated

Goodwill is allocated to the Wireless cash generating unit (CGU) and this CGU represents the lowest level within the group at which the goodwill is monitored for internal management purposes, which is not higher than the group's operating segments as reported in note 3 The group tests goodwill annually for impairment or more frequently if there are indications that goodwill may be impaired

The carrying value of intangible assets and goodwill has been assessed for impairment by reference to its value in use Value in use was determined by discounting the future cash flows generated from the continuing use of the unit The calculation of the value in use was based on the following key assumptions

- Cash flows were projected to 31 May 2015 based on past experience and actual operating results,
- Cash flows for a further 6-year period were extrapolated A growth factor was not applied to the projections as the value in use exceeded the carrying amounts before any such assumption was applied,
- A pre-tax discount rate of 20% was applied in determining the recoverable amount of the unit, being the estimated weighted average cost of capital

Based on this testing the directors do not consider any of the goodwill or intangible assets to be impaired even allowing for a reasonable degree of sensitivity to the underlying assumptions, including the discount rate

16 Property, plant and equipment

	Group
	Plant and equipment £000
Cost	
At 1 June 2010	5,849
Assets acquired through acquisition of Isotek	260
Additions	926
Disposals	(115)
At 31 May 2011	6,920
Additions	579
Disposals	(30)
Currency translation movement	17
At 31 May 2012	**7,486**
Depreciation and impairment	
At 1 June 2010	3,851
Depreciation of assets acquired through acquisition of Isotek	157
Depreciation	523
Disposals	(96)
At 31 May 2011	4,435
Depreciation	697
Disposals	(27)
Currency translation movement	6
At 31 May 2012	**5,111**
Carrying amount at 1 June 2010	1,998
Carrying amount at 31 May 2011	2,485
Carrying amount at 31 May 2012	**2,375**

17 Inventories

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Raw materials	2,266	897	–	–
Work in progress	480	342	–	–
Finished goods	452	438	–	–
	3,198	1,677	–	–
Inventories are stated net of provision	1,388	1,775	–	–

18 Trade and other receivables

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Trade receivables	9,557	4,671	–	–
Group receivables	–	–	10,379	7,255
Other receivables and prepayments	720	1,061	26	557
Forward foreign exchange contracts	–	31	–	–
	10,277	5,763	10,405	7,812
Trade receivables are stated net of provision	–	–	–	–

19 Deferred tax

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Deferred tax liability	1,762	2,612	–	–

The deferred tax liability relates to the intangible assets arising upon acquisition of the Wireless business The liability at acquisition was £2,938,000 and at 31 May 2011 was £2,612,000 £871,000 has been released to the income statement during the year (2011 £326,000)

Deferred tax classified as current consists of the element that will be recognised as income in the next year Deferred tax classified as non-current will be released to the income statement over the remaining life

	Group 2012 £000	Group Restated 2011 £000	Company 2012 £000	Company 2011 £000
Deferred tax assets	887	420	–	–

The deferred tax assets relate to the recognition of tax losses in the Wireless business

19 Deferred tax (continued)

Deferred tax assets which have not been recognised

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Depreciation in advance of capital allowances	**1,734**	1,823	**402**	507
Tax losses carried forward	**11,704**	15,431	**11,704**	12,666
	13,438	17,254	**12,106**	13,173

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

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 24 per cent with effect from 1 April 2012 This change became substantively enacted on 26 March 2012 The effect of the rate reduction is reflected in the figures above The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23 per cent from 1 April 2013 and 22% from 1 April 2014 These changes were not substantively enacted at 31 May 2012 and therefore their impact is not reflected in the figures above

20 Trade and other payables

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Trade payables	**6,994**	4,197	**51**	46
Group payables	**-**	-	**2,551**	2,551
Other payables and accruals	**1,428**	1,288	**566**	337
	8,422	5,485	**3,168**	2,934

21 Provision

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Warranty provision				
Opening balance	**437**	706	**-**	-
Provision acquired through Isotek acquisition	**-**	40	**-**	-
Used during the year	**(18)**	(44)	**-**	-
Released unused during the year	**(207)**	(441)	**-**	-
Charge for the year	**353**	176	**-**	-
Closing balance	**565**	437	**-**	-

22 Deferred income

Deferred income classified as current consists of a capital grant made by a customer that will be recognised as income in the next year Deferred income classified as non-current consists of the non-current portion that will be released to the income statement over the life of the asset

23 Pension costs

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Defined contribution schemes	**339**	277	**29**	14

24 Share capital

	Group and Company Ordinary shares of 10p each Issued and fully paid Number	£000
At 1 June 2010	74,323,093	7,432
Shares issued in year	18,550,000	1,855
At 1 June 2011	92,873,093	9,287
Shares issued in year	3,941,900	394
At 31 May 2012	**96,814,993**	**9,681**

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

The group issued 3 7m shares of nominal value 10p as part of an equity placing in August 2011

The group also issued 0 2m shares due to employees exercising share options from SAYE Scheme 1

In compliance with the Companies Act 2006 the company has adopted articles of association that has dispensed with the requirement for authorised share capital

25 Share premium

	Group and Company
At 1 June 2011	4,683
Premium on share issue	498
Share issue costs	(98)
At 31 May 2012	**5,083**

The shares issued as part of the equity placing in August 2011 were issued at a premium of 12 5p reflecting the market value of the shares at the date of acquisition net of issue costs of £98,000

The shares issued as part of the SAYE Scheme were issued at a premium of 15p

26 Translation reserve

	Group £000
At 1 June 2011	(32)
Currency translation movement arising on consolidation	16
At 31 May 2012	**(16)**

27 Dividends

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

		Group and Company	
		2012	2011
	Per share	£000	£000
Annual dividend year ended 31 May 2010	1 00p	–	743
Annual dividend year ended 31 May 2011	1 00p	–	–
		–	743

The directors are not proposing to pay a dividend for the year ended 31 May 2012

28 Retained earnings

	Group £000	Company £000
At 31 May 2010	12,453	6,634
Loss for the period	(6,940)	(1,557)
Share-based payments	122	91
Dividends	(743)	(743)
At 31 May 2011	4,892	4,425
Profit/(loss) for the period	35	(315)
Share-based payments	166	120
At 31 May 2012	**5,093**	**4,230**

29 Share options

There are three sharesave plans that have been offered to employees Under both plans employees who join the plan save up to £250 per month for three years The members of the plan were granted a number of share options based on the amount they would save over the three years At the end of the three years the members have a six month period in which they can exercise the share options The exercise price for an option was the middle market quotation of Filtronic plc's ordinary shares as derived from the Official List of the United Kingdom Financial Services Authority on the dealing day immediately prior to the plan offer date

Sharesave Plan – Scheme 1

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2012	**2012**	2011	2011
Outstanding at the beginning of the period	**25p**	**533,100**	25p	615,450
Granted during the period	**25p**	**–**	25p	–
Exercised in year	**25p**	**(225,750)**	25p	–
Cancelled during the period	**25p**	**(30,900)**	25p	(82,350)
Outstanding at the end of the period		**276,450**	25p	533,100
Exercisable at the end of the period		**276,450**		–

The first sharesave plan was offered to employees in February 2009

The options outstanding at 31 May 2012 for Scheme 1 have a weighted average remaining contractual life of 0 3 years

The share options granted under this scheme have an exercise price of 25p and have an exercise period from 1 April 2012 to October 2012

Sharesave Plan – Scheme 2

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2012	**2012**	2011	2011
Outstanding at the beginning of the period	**34 2p**	**287,773**	34 2p	–
Granted during the period	**34 2p**	**–**	34 2p	321,981
Cancelled during the period	**34 2p**	**(174,096)**	34 2p	(34,208)
Outstanding at the end of the period	**34 2p**	**113,677**	34 2p	287,773
Exercisable at the end of the period		**–**		–

The second sharesave plan was offered to employees in November 2010

The options outstanding at 31 May 2012 for Scheme 2 have a weighted average remaining contractual life of 1 9 years

The share options granted during the year to May 2012 have an exercise price of 34 2p and have an exercise period from 1 November 2013 to 30 April 2014

Sharesave Plan – Scheme 3

	Weighted average exercise price	Number of options
	2012	**2012**
Outstanding at the beginning of the period	**22 6p**	**-**
Granted during the period	**22 6p**	**1,043,026**
Cancelled during the period	**22 6p**	**(2,548)**
Outstanding at the end of the period	**22 6p**	**1,040,478**
Exercisable at the end of the period		**-**

The third sharesave scheme was offered to employees in April 2012

The options outstanding at 31 May 2012 for Scheme 3 have a weighted average remaining contractual life of 3 5 years

The share options granted during the year to May 2012 have an exercise price of 22 6p and have an exercise period from 1 May to 31 October 2015

30 Share awards

	Number of share awards	
	2012	2011
Performance Share Plan		
Outstanding at the beginning of the period	**1,067,097**	569,388
Cancelled during the year	**(47,626)**	-
Awarded during the period	**-**	497,709
Outstanding at the end of the period	**1,019,471**	1,067,097

The share awards awarded during the year to 31 May 2010 have a weighted average remaining contractual life of 0 2 years

The share awards awarded during the year to 31 May 2011 have a weighted average remaining contractual life of 1 5 years

30 Share awards (continued)

Under the plan in the year to 31 May 2010 share awards were made to executive directors and senior managers The vesting of the awards is subject to performance targets based on growth in earnings before intangible amortisation per share (EPS) over a three year period If growth in EPS exceeds growth in the Retail Price Index (RPI) by 3% per year (on a compound basis) then 25% of the awarded shares will vest If growth in EPS exceeds growth in RPI by 10% per year (on a compound basis) then 100% of the awarded shares will vest If growth in EPS falls between these two targets, then the awarded shares will vest on a sliding scale between 25% and 100% of the awarded shares

Under the plan in the year to 31 May 2011 further share awards were made to executive directors and senior managers The vesting of the share awards is subject to performance targets based on growth in earnings per share (EPS) over a three year period If EPS grows such that for the year to 31 May 2013 it exceeds a figure corresponding to £5 5m of earnings before intangible amortisation, exceptionals, interest and tax, then 25% of the awarded shares will vest If EPS grows such that for the year to 31 May 2013 it exceeds a figure corresponding to £7 0m of earnings before intangible amortisation, exceptionals, interest and tax, then 100% of the awarded shares will vest If EPS grows to be between these two targets then the awarded shares will vest on a sliding scale between 25% and 100% of the awarded shares

31 Share-based payments

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Share options expense	**48**	34	**3**	3
Share awards expense	**118**	88	**117**	88
	166	122	**120**	91

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

32 Share-based payments (continued)

The inputs to the Black-Scholes model and the weighted average fair value of the share options granted during the year were as follows

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Number of share options granted	**982,814**	321,981	**60,212**	30,736
Weighted average share price	**28 25p**	38p	**28 25p**	38p
Weighted average exercise price	**22 6p**	34 2p	**22 6p**	34 2p
Expected volatility	**60%**	60%	**60%**	60%
Expected life	**3 1 years**	3 1 years	**3 1 years**	3 1 years
Risk free interest rate	**3%**	3%	**3%**	3%
Weighted average fair value	**12p**	12p	**12p**	12p

Expected volatility is the estimate of the volatility of the share price over the expected life of the share options

The share awards expense was the fair value of the share awards at the date of award spread over the expected vesting period of the share awards The fair value of the share awards at the date of award was the market price of the shares on that day

The fair value of the share awards awarded during the year were as follows

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Number of share awards awarded	–	497,709	–	157,944
Weighted average share price	–	32p	–	32p
Expected life	–	3 0 years	–	3 0 years
Weighted average fair value	–	32p	–	32p

33 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	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Less than one year	**177**	149	**111**	110
Between one and five years	**131**	219	**82**	190
	308	368	**193**	300

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

34 Capital expenditure commitments

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Capital expenditure contracted for at the balance sheet date but not provided in the financial statements	256	284	–	–

35 Note to the consolidated cash flow statement

	note	Group 2012 £000	Group 2011 £000
Operating loss			
Continuing operations		(1,651)	(7,080)
Net cash used in operating activities			
Continuing operations		(619)	(4,371)
Net cash used in investing activities			
Continuing operations		(555)	(6,714)
Sale of discontinued operations	36	–	(265)
		(555)	(6,979)
Net cash from/(used in) financing activities			
Continuing operations		794	(743)

36 Net cash from sale of discontinued operations

	Group 2012 £000	Group 2011 £000
Historic warranty claim	–	(265)
	–	(265)

37 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 90 days

Trade and other payables are all payable in less than one year Trade payables are generally payable within 90 days

Liquidity risk

The group and company hold significant cash balances and have no debt Cash is held on bank deposit for varying periods from overnight to six 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

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	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Cash and cash equivalents	**3,745**	4,120	**1,193**	2,953
Trade and other receivables	**10,277**	5,763	**10,404**	7,812
	14,022	9,883	**11,597**	10,765

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

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Barclays Bank	**3,522**	3,312	**1,193**	2,413
China Citic Bank	**186**	-	-	-
Santander Bank	-	540	-	540
Bank of America	**33**	227	-	-
HSBC	-	41	-	-
Industrial and Commercial Bank of China	**4**	-	-	-
	3,745	4,120	**1,193**	2,953

37 Financial instruments (continued)

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 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	
	2012	2011
	£000	£000
Customer one	**3,043**	2,147
Customer two	**1,414**	1,481
Customer three	**1,353**	222
Other customers	**3,747**	821
	9,557	4,671

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

	Group	
	2012	2011
	£000	£000
Not past due	**8,408**	4,609
Past due less than three months	**1,149**	62
	9,557	4,671

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

	Group	
	2012	2011
	£000	£000
Past due less than three months	**-**	-

There is no provision for doubtful trade receivables as the group expects to recover all outstanding trade receivables

37 Financial instruments (continued)

Interest rate risk

Cash is held on short term bank deposits which earn interest at variable money market deposit rates At 31 May 2012 £1,000,000 was held in Barclays on short term deposit with an interest rate of 0 3% Sterling interest rates are very low 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 £1,000,000 is as follows

Interest rate	Expected annual interest income £000
1 5%	15
1 0%	10
0 5%	5

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 and US dollar

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

The group generates a surplus of US dollars as most customers are now invoiced in US dollars The nature of the group's businesses means that there is limited visibility of future revenues in US dollars Therefore when forward foreign exchange contracts are used to reduce the currency risk on the surplus currency expected to be generated, they are usually only for short term periods of no more than six months If sterling were to strengthen significantly this could materially reduce the group's revenue and operating result

Forward foreign exchange contracts may also be used to reduce the foreign currency risk on other transactions

At 31 May 2012 there were forward foreign exchange contracts in place

Cash is mainly held in sterling and US dollars

37 Financial instruments (continued)

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

	Group			
	2012		2011	
	EUR £000	USD £000	EUR £000	USD £000
Cash and cash equivalents	284	2,019	446	659
Trade receivables	72	7,785	143	4,358
Trade payables	(856)	(3,592)	(425)	(4,057)
Net exposure	(500)	6,212	164	960

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

If the US dollar had been one per cent stronger/weaker against sterling throughout the year ended 31 May 2012 then the group operating profit from continuing operations would have been £86,000 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 At 31 May 2012 the group had a cash balance of £3,745,000 and the company had a cash balance of £1,193,00 The group and company have sufficient cash to cover working capital requirements and capital expenditure plans

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide future returns for shareholders

38 Forward-looking statements

Certain statements in this annual report are forward-looking Where the annual report includes forward-looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report Such statements are based on current expectations and are subject to a number of risks and uncertainties, including both economic and business risk factors that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements Unless otherwise required by applicable law, regulation or accounting standard, the group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise

Annual General Meeting

The Annual General Meeting of Filtronic plc will be held at Pinsent Masons LLP, 1 Park Row, Leeds LS1 5AB on Friday 21 September 2012 at 11 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 2012	28 January 2013
Final results to 31 May 2013	29 July 2013

Website

The company's website address is **www filtronic co uk**

The website includes company news and investor sections The annual and half-yearly 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

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
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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