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The Company, the Proposed Director, and the Directors whose names appear on page 21 accept responsibility for the information contained in this prospectus and to the best of the knowledge of the Company, the Proposed Director, and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this prospectus is in accordance with the facts and contains no omission likely to affect its import.

The distribution of this document and/or accompanying documents and/or the issue of the New Ordinary Shares through CREST or otherwise, into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document and/or accompanying documents come should inform themselves about and observe such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws or regulations of such jurisdictions. In particular, and subject to certain exceptions, this document and any other such documents should not be distributed, forwarded or transmitted in or into the United States or the Restricted Territories.

This document, which comprises a prospectus relating to the Company prepared in accordance with the Prospectus Rules of the UK Listing Authority made under section 73A of FSMA, has been approved by the Financial Services Authority in accordance with section 87A of FSMA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

FILTRONIC PLC

(Incorporated in England and Wales with registered number 02891064)

Proposed issue of 18,550,000 New Ordinary Shares to Isotek Shareholders in connection with the acquisition of Isotek (Holdings) Limited

Panmure Gordon (UK) Limited
Sponsor and Financial Adviser

Persons receiving a copy of this document should read the document and any documents incorporated herein by reference in their entirety and, in particular, the section headed “Risk Factors” on pages 11 to 15 of this document, for a discussion of certain factors that should be considered when deciding on what action to take in relation to the Acquisition.

This document does not constitute an offer of, or the solicitation of an offer to buy or to acquire, New Ordinary Shares to any person in any jurisdiction to whom or in which jurisdiction such offer or solicitation is unlawful. In particular, the offer, sale and/or issue of the New Ordinary Shares has not been and will not be registered under the US Securities Act of 1933, as amended (the “US Securities Act”) or qualified for sale under the laws of any state or other jurisdiction of the United States and may not be offered, sold, resold, transferred, distributed or delivered, directly or indirectly, within, in or into the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable state securities laws.

The Ordinary Shares are listed on the Official List of the UK Listing Authority and have been admitted to trading on the London Stock Exchange’s main market for listed securities. Application will be made to the UK Listing Authority and to the London Stock Exchange for the New Ordinary Shares, to be issued in connection with the Acquisition to which this Prospectus relates, to be listed on the Official List of the UK Listing Authority and to be admitted to trading on the London Stock Exchange’s main market for listed securities. It is expected that Admission will become effective and that dealings in the New Ordinary Shares will commence at 8.00 a.m. on 16 November 2010.

Panmure Gordon, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for the Company and no one else in connection with Acquisition and will not regard any other person (whether or not a recipient of this document) as its client in relation to the Acquisition and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in connection with the Acquisition or any other matter referred to in this document.

No representation or warranty, express or implied, is made by Panmure Gordon or any of its affiliates as to the accuracy, completeness or verification of the information set forth in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or the future. Panmure Gordon does not assume any responsibility for its accuracy, completeness or verification and accordingly disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this document or any such statement.

NOTICE TO INVESTORS IN THE UNITED STATES

The New Ordinary Shares have not been and will not be registered under the US Securities Act or qualified for sale under the laws of any state or other jurisdiction of the United States and may not be offered, sold, resold, transferred, distributed or delivered, directly or indirectly, within, in or into the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable state securities laws. There will be no public offer in the United States. The New Ordinary Shares are being offered and sold (i) outside the United States in offshore transactions within the meaning of and in accordance with the safe harbour from the registration requirements provided by Regulation S under the US Securities Act or (ii) within the United States solely in private placement transactions not involving any public offering in reliance on the exemption from the registration requirements of Section 5 of the US Securities Act provided by Section 4(2) under the US Securities Act or another applicable exemption therefrom.

Certain of the New Ordinary Shares are subject to certain restrictions on transfer. Each purchaser of the New Ordinary Shares offered hereby in accepting its shares will be required to make certain representations and agreements. For a description of these and certain further restrictions on the offer, sale and transfer of the New Ordinary Shares and distribution of this document, see Part IV of this document.

None of the New Ordinary Shares, the Offer Document, this document or any other document connected with this Offer have been approved or disapproved by the SEC, any state securities commission in the United States or any other regulatory authority in the United States, nor have such authorities passed upon, or endorsed the merits of, the offering or issue of the New Ordinary Shares or the accuracy or the adequacy of the Offer Document, this document or any other document connected with this Offer. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL, TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO INVESTORS IN AUSTRALIA

This document, the Offer Document and any document connected with the Offer:

- (a) has been prepared for the purpose of compliance with the law applicable in respect of the Offer in the United Kingdom and the operating rules of the UK Listing Authority; and
- (b) may not contain all the information required to be contained in disclosure documents under Australian law.

The Company is not subject to the continuous disclosure requirements of the Corporations Act 2001 (Cth) that apply in Australia.

Capitalised terms in this document have the meanings ascribed to them in Part XI (“Definitions”).

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SUMMARY

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this document. Any investment decision relating to the Issue should be based on the consideration of the document as a whole and not solely on this summarised information. Where a claim relating to the information contained in, or incorporated by reference into, this document is brought before a court in a member state of the European Economic Area, the claimant may, under the national legislation of that member state where the claim is brought, be required to bear the costs of translating this document before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, but only if this summary (or any translation of this summary) is misleading, inaccurate or inconsistent when read together with other parts of this document (including information incorporated by reference into this document).

1. Introduction

The Board announced on 30 July 2010 that the Company is proposing to acquire the Wireless Telecoms Business of Isotek for a consideration (subject to adjustments) of £4.35 million in cash and the issue of 18,550,000 New Ordinary Shares.

2. Information on the Group

Filtronic's products are integrated by OEMs into point-to-point radios. These radios provide the backhaul links for telecom networks, particularly the mobile base station market. Filtronic is a leading merchant supplier of transceiver modules to this market. The point-to-point business applies specialised microwave technology and radio expertise to develop customised solutions for each OEM customer. It provides products supporting a broad range of frequency bands underpinned by cost effective designs in order to offer highly competitive volume supply across two product lines – microwave transceiver modules and filters (diplexers).

Filtronic's strategic objective is to be a leading microwave electronics supplier to the wireless telecoms market by utilising its proprietary technologies and engineering expertise and applying these competencies to market segments which offer opportunities for sustainable rates of growth and return. Filtronic addresses these opportunities by designing and supplying sophisticated and customised RF microwave and millimetric products to meet its customers' requirements and by continuing to develop its global relationships with these customers.

3. Information on Isotek

Isotek develops and markets leading-edge telecoms products for a range of wireless telecoms applications. These products, comprising innovative filters and combiners, enable operators to use their existing 2G infrastructure also to deliver 3G and 4G services simultaneously, with a minimum of switch-over downtime. This can bring significant cost savings by eliminating the need to upgrade or replicate network infrastructure in some cases, as well as improving the use of the available spectrum.

In the year ended 31 May 2010 Isotek made an unaudited pre-tax loss of £1.9 million on turnover of £0.8 million and had gross assets of £0.8 million at that date. The revenues which all related to the same wireless telecoms activity were split between two geographic segments: United Kingdom (£0.4 million) and United States (£0.4 million). The US segment was established towards the end of the financial year ended 31 May 2009 and accordingly the results for the financial year ended 31 May 2009 (£0.4 million) and the financial year ended 31 May 2008 (£0.1 million) were wholly related to the UK segment.

Over the last 3 years Isotek has invested more than £5 million in the development of its wireless telecoms business.

The Directors expect Filtronic's experience and operational expertise to improve Isotek's ability to take advantage of the strong growth in 4G mobile data traffic with its new customised microwave filter solutions.

4. Background to and reasons for the Issue

On 16 October 2006, Filtronic announced that it had completed the disposal of the majority of its wireless infrastructure division for shares and cash then worth US\$298 million.

Since that disposal Filtronic has watched the rapid development of the wireless telecoms market with interest (whilst continuing to develop and supply products into the wireless telecoms backhaul market) and has recently evaluated opportunities to transform the range and size of the Group's business by acquiring a business operating in a different segment of the base station market.

Isotek has a leading position developing and marketing wireless telecoms products. It is run and owned primarily by members of Filtronic's former senior management. Alan Needle (formerly an executive director of Filtronic) and Dr Christopher Mobbs (former CTO of Filtronic) will continue to run this business segment following the Acquisition. Isotek has made substantial investments in innovative new technology, resulting in the creation of new intellectual property.

The Acquisition is in line with Filtronic's strategy to create a differentiated, high growth wireless telecoms business through organic growth and selective acquisitions. The Acquisition will deliver significant opportunities in the base station market sector.

In the longer term the Directors believe that as a result of the Enlarged Group's greater critical mass, it will be well positioned to take advantage of further opportunities in future industry restructuring.

5. Financial effects of the Issue

Upon completion of the Issue, the New Ordinary Shares will represent approximately 20 per cent. of the Company's enlarged issued ordinary share capital.

The Directors believe that the Acquisition is likely to increase the Group's turnover in the year ending 31 May 2012 ("FY12") by around £15 million. The deal is expected to be earnings enhancing in FY12 and significantly earnings enhancing in the second full year of ownership. Pro forma net assets would have increased by £5.5 million to £25.4 million, had the transaction occurred at 31 May 2010, as set out in the unaudited pro forma statement of net assets of the Enlarged Group in Part VIII of this document.

6. Principal terms of the Acquisition

The consideration payable under the Offer comprises cash consideration and the issue of the Consideration Shares (subject to adjustment pursuant to the Warranty and Indemnity Deed and the Offer Document), further details of which are summarised in Part IV. On 30 July 2010, being the date of the Warranty and Indemnity Deed, the cash consideration was agreed at £4,350,000 on the assumption of net debt at Completion in Isotek of £1,400,000. Based on the closing mid-price per Ordinary Share of 35.75 pence as at 27 October 2010, this implies an aggregate consideration of approximately £11.0 million.¹

¹ The Directors believe that the net debt in Isotek at Completion is likely to be approximately £1,520,000. Based on this assumption (and that there are no other adjustments as at Completion), the cash consideration would be £4,230,000.

7. Selected financial information on the Company and Isotek

Filtronic

<i>Year ended 31 May</i>	<i>2010</i> <i>(£'000)</i>	<i>2009</i> <i>(£'000)</i>	<i>2008</i> <i>(£'000)</i>
Income Statement Items			
Revenue	15,575	28,779	40,133
Op. (loss)/profit before exceptionals from continuing ops	(292)	2,080	2,522
Exceptional items	(842)	(937)	(26,029)
(Loss)/Profit before taxation	(1,021)	2,266	(16,200)
(Loss)/Profit from continuing operations	(1,021)	2,266	(16,200)
Balance Sheet Items			
Total Assets	23,602	27,524	54,740
Total Liabilities	3,717	5,948	15,827
Net Assets	19,885	21,576	38,913

Isotek

<i>Year ended 31 May</i>	<i>2010</i> <i>(£'000)</i>	<i>2009</i> <i>(£'000)</i>	<i>2008</i> <i>(£'000)</i>
Income Statement Items			
Revenue	789	433	124
Op. loss from continuing ops	(1,874)	(1,457)	(901)
Loss before tax	(1,905)	(1,446)	(891)
Loss from continuing operations	(1,695)	(1,256)	(717)
<i>As at 31 May 2010</i>	<i>2010</i> <i>(£'000)</i>	<i>2009</i> <i>(£'000)</i>	<i>2008</i> <i>(£'000)</i>
Balance Sheet Items			
Total Assets	757	571	679
Total Liabilities	(1,063)	(268)	(14)
Net (Liabilities)/Assets	(306)	303	665

Source: Filtronic audited accounts for the years ended 31 May 2010, 31 May 2009 and 31 May 2008 and the financial information on Isotek contained in Part VII of this document.

8. Significant Change

Prior to 31 May 2010 Isotek sales were of prototype units and small trial runs (tens rather than hundreds of units). Since 31 May 2010 such sales have continued but have also progressed to area trials involving sales with 2 significant customers in the hundreds of units. As a result the sales, margin and profitability of the business have increased significantly. Sales in the three months to 31 May 2010 totalled £0.2 million, aggregate sales for the three months to 31 August 2010 were £0.4 million. Whilst sales have increased they remain consistent with Filtronic's previously disclosed expectation of £5 million for the post completion period to 31 May 2011.

Post 31 May 2010, Isotek has raised a further £1.4 million of debt funding. In consideration for the debt funding an additional 1.4 million share options at an exercise price of 20p have been issued.

Apart from these changes, there has been no significant change in the financial or trading position of Isotek or Filtronic since 31 May 2010.

9. Working Capital

The Company is of the opinion that the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of this document.

10. Summary of risk factors

Shareholders should carefully consider the "Risk Factors" section of this Prospectus. This section includes the following material risks:

1. Risks associated with the proposed Acquisition

Satisfaction of Conditions

There are a number of conditions the parties must meet before the Acquisition can complete, including, but not limited to, obtaining the approval of the Shareholders and there being no changes having a material adverse impact on the business being acquired. Failure to meet or waive conditions could threaten Completion.

If the Warranty and Indemnity Deed is terminated Filtronic may be required to pay a break fee

The Warranty and Indemnity Deed contains certain provisions relating to the payment, in cash, of a fee should the Acquisition not proceed.

If Filtronic is not successful in integrating the Wireless Telecoms Business its operations may be adversely affected

Failure to realise some of the anticipated benefits of the Acquisition could have an adverse impact on business, financial condition, results or operations.

2. Risks associated with the Enlarged Group

Wireless telecoms market

The wireless telecoms market may not develop as expected, which could limit Filtronic's longer term financial performance.

Reliance on customers

Filtronic's point-to-point business depends, and expects to continue to depend, on a relatively small number of key customers and prospective customers for a significant part of its revenues.

Reliance on suppliers

The Business is reliant on several semiconductor manufacturers for MMIC supplies.

Intellectual property

While the Enlarged Group does not believe that any of its products infringe the valid intellectual property rights of third parties, it could suffer litigation expenses or could be prevented from selling certain products as a result of third party infringement claims. Should the Enlarged Group fail to maintain or enforce intellectual property rights, or if competitors design around its technology or develop competing technologies, its competitive position could suffer.

3. Risks relating to Isotek

Isotek has a history of losses and may not be profitable in the future

In the financial year ended 31 May 2010, Isotek made an unaudited pre-tax loss of £1.9 million. There is no guarantee that Isotek will achieve or maintain profitability in the future.

Isotek depends on wireless telecoms industry for all of its revenues

Isotek depends on the mobile communication industry for all of its revenues. If the global economic downturn persists, its revenues may suffer.

Customers

Isotek relies on a few large customers for the majority of its revenues and the loss of any one of those customers may have a material effect on its business, results of operations and/or financial condition.

Suppliers

Isotek relies on a small number of suppliers and relies for the manufacture of its products on a large Chinese turnkey manufacturer. The loss of this manufacturer or of other key suppliers, or the material change to the supply terms would have a material effect on its business.

Key employees

Isotek's future success will depend greatly upon the expertise and continued services of certain key individuals and technical personnel.

Intellectual property

Isotek has a substantial intellectual property portfolio, with patent applications having been filed in a number of jurisdictions across the world. Whilst Isotek does not believe that any of its products infringe the valid intellectual property rights of third parties, it could suffer litigation expenses or could be prevented from selling certain products as a result of third party infringement claims being made against Isotek.

4. Risk factors relating to the industry

Economic downturn

Any deterioration in the global economic outlook could adversely affect the Enlarged Group's business, financial condition and results of operations.

Law and regulation

The Enlarged Group is subject to various international, federal, state and local regulations currently in effect and scheduled to become effective in the near future, which are complex, change frequently, can vary from country to country, and have increased over time. Any breach of these obligations may have an adverse effect on the Enlarged Group's business, financial condition and results of operations.

Exchange rates

The Enlarged Group conducts business internationally and is exposed to movements in the value of the US dollar versus the pound sterling.

Competition

The Enlarged Group faces competition in all of its businesses.

Competitors

The Enlarged Group competes with merchant suppliers in the mobile communication market. Additionally, there are mobile communication OEMs that use their own captive resources for the design and manufacture of their transceiver modules and base station filters, rather than using merchant suppliers like Filtronic.

Retention of key staff

The Enlarged Group's success is dependent on attracting and retaining highly qualified and skilled employees. There is intense competition for personnel from other organisations.

5. Risk relating to the issue of the Consideration Shares

Possible volatility of the price of Ordinary Shares

Shareholders should be aware that the value of the Ordinary Shares can go down as well as up.

Sale of Consideration Shares to meet a warranty claim

It is a term of the Acquisition that, in the event of a claim under the Warranty and Indemnity Deed, Filtronic has the right to sell such number of Consideration Shares on the market to settle any liability arising under such claim. The proceeds received by Filtronic on a sale of Consideration Shares will depend on the price achieved in the market at the time the Board decides to sell the Consideration Shares. The market price of

the Consideration Shares may be affected by the announcement of such claim and the proposed disposal of the Consideration Shares. Accordingly, the value of the Ordinary Shares could go down. Additionally, Filtronic, for whatever reason, may not have available or may be unable to sell a sufficient number of the Consideration Shares to settlement the amount of such claim.

6. General risks

Impact of further issues of Ordinary Shares and significant disposals

Although there is no current intention to do so (other than under the Company Share Scheme), it is possible that the Company may decide to offer additional Shares or employee share options in the future. An additional offering of Ordinary Shares by the Company, significant sales of Ordinary Shares by employees or major Shareholders, or the public perception that an offering or sales may occur, could have an adverse effect on the market price of Ordinary Shares.

Ability to pay dividends

The Directors can give no assurances to Shareholders that the Company will be able to pay a dividend going forward.

The Ordinary Shares will trade in pounds sterling and any dividends will be paid in pounds sterling

The Ordinary Shares will be traded in pounds sterling and any dividends will be paid in pounds sterling. An investor in the Ordinary Shares whose principal currency for accounting and/or tax purposes is not pounds sterling will be exposed to fluctuations in the exchange rate between the particular currency in question and pounds sterling.

RISK FACTORS

The Issue and any investment in the Company are subject to a number of risks. Accordingly, investors and prospective investors should carefully consider all of the information set out in this Prospectus and all of the information incorporated by reference into this Prospectus including, in particular, the risks described below prior to making an investment decision in the Company. The Enlarged Group's business, financial condition or results of operations could be materially and adversely affected by any of the risks described below. In such case, the market price of the Ordinary Shares may decline and investors may lose all or part of their investment.

These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties nor listed in order of magnitude or probability. Additional risks and uncertainties that are not presently known to the Directors, or which they currently deem immaterial, may also have an adverse effect on the Enlarged Group's operating results, financial condition and prospects. The information given is as of the date of this Prospectus and, except as required by the FSA, the London Stock Exchange, the Prospectus Rules, the Disclosure and Transparency Rules, the Takeover Code or any other law or regulation, will not be updated. Any forward-looking statements are made subject to the reservations specified under "Forward-Looking Statements" and "Cautionary note regarding forward-looking statements on pages 15 and 17 of this document respectively.

Investors and prospective investors should consider carefully whether an investment in the Company is suitable for them in light of the information set out in this document and the information incorporated by reference into this document and the financial resources available to them.

1. RISKS ASSOCIATED WITH THE PROPOSED ACQUISITION

Satisfaction of conditions

There are a number of conditions the parties must meet before the Acquisition can complete. Obtaining the approval of Shareholders is just one of those conditions. Some of the conditions are the absence of certain changes having a material adverse impact on the business being acquired or the business affairs or prospects of the Isotek group. If the parties do not meet all the conditions, or those conditions are not waived by Filtronic, completion will not occur.

If the Warranty and Indemnity Deed is terminated Filtronic may be required to pay a break fee

The Warranty and Indemnity Deed contains certain provisions relating to the payment, in cash, of a fee should the Acquisition not proceed. This fee would be payable in the event that Filtronic withdraws the Offer, unless such withdrawal is due to a material adverse change in the business being acquired or there is a material breach of the Warranty and Indemnity Deed. In such event, the fee payable is the lower of Warrantors' costs incurred in connection with the proposed Acquisition and the maximum amount which Filtronic can pay by way of a break fee in accordance with the Listing Rules without requiring shareholder approval (being 1 per cent. of the market capitalisation of Filtronic as at the date of the Warranty and Indemnity Deed).

2. RISKS ASSOCIATED WITH FILTRONIC'S EXISTING POINT-TO-POINT BUSINESS

Reliance on customers

Filtronic's point-to-point business depends, and expects to continue to depend, on a relatively small number of key customers and prospective customers for a significant part of its revenues. These key customers and prospective customers together represent more than 75% of the addressable market for Filtronic's point-to-point business. The loss of any of these customers, or any material reduction in orders from any such customers, would have a material adverse effect on Filtronic's point-to-point business and on Filtronic's financial condition and results of operations. To mitigate this risk, Filtronic's point-to-point business is focused on diversifying its customer base by contracting with another second tier OEM and possibly one or two other first tier OEMs.

Reliance on suppliers

The point-to-point business is reliant on several semiconductor manufacturers for monolithic microwave integrated circuit supplies. Mitigation actions include a supply agreement with RF Micro Devices (“RFMD”) which has an initial term to 29 February 2011 and which may thereafter be terminated upon 12 months’ written notice. In the event of the closure of RFMD’s Newton Aycliffe facility, the Business has contractual rights for a last time buy opportunity (within a minimum of a 12 month last time buy notice period, such notice period not to commence before expiry of the initial term).

3. RISKS RELATING TO ISOTEK

Isotek has a history of losses and may continue to be unprofitable in the future

In the year ended 31 May 2010, Isotek made an unaudited pre-tax loss of £1.9 million on turnover of £0.8 million. Although Isotek has made significant investments in innovative new technology, resulting in the creation of new intellectual property, which Filtronic believes provides Isotek with a significant competitive advantage, there is no guarantee that Isotek will achieve or maintain profitability in the future.

Isotek depends on the mobile communication industry for all of its revenues

Isotek depends on the mobile communication industry for all of its revenues. The global economic downturn has impacted the mobile communication industry. If the downturn persists, its revenues may suffer.

Customers

Isotek relies on a few large OEM customers (as well as a large number of prospective telecoms operators) for the majority of its revenues and the loss of any one of those customers, or a significant reduction in orders from any of these customers, may have a material effect on its business, results of operations and financial condition.

Suppliers

Isotek relies on a small number of suppliers and, in common with other telecoms entities, relies for the manufacture of its products on a large Chinese turnkey manufacturer that provides favourable supply and financing terms. The loss of this manufacturer or of other key suppliers, or a material change to supply terms, would have a material effect on Isotek’s business, results of operations and financial condition.

Key employees

Isotek’s future success will depend greatly upon the expertise and continued services of certain key individuals and technical personnel. The Enlarged Group will have employment or service contracts with its key individuals and technical personnel going forward and, for certain senior executives, such contracts contain an initial 2 year term from the date of Completion. Further, each of the senior executives has agreed (subject to certain exceptions) not to make any disposals of Consideration Shares prior to the first anniversary of Completion and, for the next 12 months, not to make disposals other than through Filtronic’s broker from time to time and in accordance with such broker’s request so as to ensure an orderly market for the shares.

Intellectual property

Isotek has a significant intellectual property portfolio, with patent applications having been filed in a number of jurisdictions across the world, including, but not limited to, the United Kingdom, the United States, India and China, with another patent application pending approval. Whilst Isotek does not believe that any of its products infringe the valid intellectual property rights of third parties, it may be unaware of intellectual property rights of others that may cover some of its technology, products and services and as a result the Enlarged Group could suffer litigation expenses or could be prevented from selling certain products as a result of third party infringement claims being made against Isotek.

4. RISKS RELATING TO THE ENLARGED GROUP

Development of the wireless telecoms market

The wireless telecoms market may not develop as expected, which could limit Filtronic's opportunity to continue its expansion. This could affect both the volume achieved and the pricing sought by Filtronic and could therefore affect its longer term financial performance.

Economic downturn

Any deterioration in the global economic situation could have an adverse impact on the Enlarged Group. As a global financial and economic crisis cannot be predicted, such risks are outside of the Enlarged Group's control. Any market disruption and volatility may cause the Enlarged Group to experience reductions in trading activity, the financial failure of one or more of its key customers (which could cause a material reduction in orders from such customers affecting the Enlarged Group's revenue and profitability) and/or suppliers (which could create problems with the manufacturing of products to meet customers' requirements affecting the Enlarged Group's revenue and profitability) and consequently lower profitability. A global recession or deep recessionary conditions which affect the Enlarged Group's business could have a material adverse effect on the Enlarged Group's business, results of operations and overall financial condition.

If Filtronic is not successful in integrating the Wireless Telecoms Business its operations may be adversely affected

Filtronic's ability to realise some of the anticipated benefits of the Acquisition will depend in part on Filtronic's ability to convert the Wireless Telecoms Business to its operational infrastructure and systems in a timely and efficient manner. If Filtronic cannot successfully convert the Wireless Telecoms Business to its operational practices, it may not realise some of the expected benefits of the Acquisition, which could materially and adversely affect its business, financial condition and results of operations.

Law and regulation

The Enlarged Group is subject to various international, federal, state and local regulations currently in effect and scheduled to become effective in the near future, including environmental and health and safety laws and regulations. These regulations are complex, change frequently, can vary from country to country, and have increased over time. Any breach of these obligations, or incidents relating to them, may have an adverse effect on the Enlarged Group's business, financial condition and results of operations.

Exchange rates

The Enlarged Group conducts business internationally and needs to translate foreign assets and liabilities, income and expenses into Sterling. Consequently, the Enlarged Group is subject to the risk of fluctuations in currency exchange rates which could adversely affect the Enlarged Group's business, financial condition and/or results of operation. The US dollar is the major currency to which the Enlarged Group will be exposed.

Competition

The Enlarged Group faces competition in all of its businesses. To stay competitive it will need to introduce successful new products and may also have to adjust prices of some products. The Enlarged Group's business, financial condition and results of operations may suffer if it does not compete effectively.

Intellectual property

While neither Filtronic nor Isotek believes that any of their products infringe the valid intellectual property rights of third parties, either of them may be unaware of intellectual property rights of others that may cover some of their technology, products and services. As a result the Enlarged Group could suffer litigation expenses or could be prevented from selling certain products as a result of third party infringement claims. The success of the Enlarged Group depends in part on proprietary technology. Should the Enlarged Group fail to maintain or enforce intellectual property rights, or competitors design around its technology or

develop competing technologies, its competitive position could suffer and its operating results may be harmed.

Competitors

The Enlarged Group competes with merchant suppliers in the mobile communication market who provide integrated transceivers and base station filters to radio OEMs and operators. Additionally, there are mobile communication OEMs that use their own captive resources for the design and manufacture of their transceiver modules and base station filters, rather than using merchant suppliers like Filtronic. To the extent that mobile communication OEMs presently, or may in the future, produce their own transceiver modules and/or base station filters, the Enlarged Group will lose the opportunity to provide its equipment to them.

Retention of key staff

The Enlarged Group's success is dependent on attracting and retaining highly qualified and skilled employees. There is intense competition from other organisations for personnel and the loss of key employees, or the failure to attract and retain other highly skilled employees, may impair the Enlarged Group's ability to operate its business effectively.

5. RISKS RELATING TO THE ISSUE OF THE CONSIDERATION SHARES

Possible volatility of the price of Ordinary Shares

The market price of the Ordinary Shares may be affected by a variety of factors, including, but not limited to, changes in sentiment regarding the Ordinary Shares, variations in the Enlarged Group's operating results compared with the expectations of market analysts and investors, its business development or those of its competitors, the operating performance of its competitors or speculation about the Enlarged Group's business. Shareholders should therefore be aware that the value of the Ordinary Shares can go down as well as up.

Sale of Consideration Shares pursuant to the Offer

It is a term of the Acquisition that, in the event of an agreed (or determined) claim under the Warranty and Indemnity Deed and in certain other situations, Filtronic has the right to sell such number of Consideration Shares claimed, save that from 6 months to 24 months following Completion only half of the Consideration Shares will be available for this purpose (and thereafter none). The proceeds received by Filtronic on a sale of Consideration Shares will depend on the price achieved in the market at the time the Board decide to sell the Consideration Share. The market price of the Shares may be affected by the announcement of a claim under the warranties and the proposed disposal of the Consideration Shares. Accordingly, the value of the Ordinary Shares could go down. Additionally, Filtronic, for whatever reason, may not have available (or may be unable to sell) a sufficient number of the Consideration Shares to settle the amount of a claim.

6. GENERAL RISKS

Impact of further issues of Shares and significant disposals

Although there is no current intention to do so (other than under the Company Share Scheme), it is possible that the Company may decide to offer additional Shares in the future. In addition, the granting of employee share options in respect of Shares is an integral element of the Enlarged Group's remuneration policies. An additional offering of Shares by the Company, significant sales of Shares by employees or major Shareholders, or the public perception that an offering or sales may occur, could have an adverse effect on the market price of Ordinary Shares.

Ability to pay dividends

The ability of the Company to pay dividends to Shareholders is a function of the profitability of the Enlarged Group and the extent to which, as a matter of law, the Company has available to it sufficient distributable reserves out of which any proposed dividend may be paid. Whilst the Enlarged Group can give no assurances to Shareholders that it will be able to pay a dividend going forward, the Board recognises the importance of dividends to Shareholders.

The Shares will trade in pounds sterling and any dividends will be paid in pounds sterling

The Shares are traded in pounds sterling and any dividends will be paid in pounds sterling. An investor in the Shares whose principal currency for accounting and/or tax purposes is not pounds sterling will be exposed to fluctuations in the exchange rate between the particular currency in question and pounds sterling.

7. FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements concerning the Enlarged Group. Forward-looking statements are based on current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties, and assumptions about the Enlarged Group. Subject to Filtronic's continuing obligations under the Prospectus Rules, the Listing Rules, the Disclosure and Transparency Rules and the UK Corporate Governance Code or to any law or regulation, the Enlarged Group undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND ACQUISITION STATISTICS

Each of the times and dates in the table below is indicative only and may be subject to change.

2010

Publication of Prospectus	28 October
General Meeting to approve Acquisition	15 November
Admission and commencement of dealings in New Ordinary Shares on the London Stock Exchange	16 November
Expected date of completion of Acquisition	16 November

Acquisition Statistics

Number of Ordinary Shares in issue as at the date of this document	74,323,093
Number of New Ordinary Shares to be issued in the Acquisition	18,550,000
Number of Ordinary Shares in issue immediately following completion of the Acquisition	92,873,093
New Ordinary Shares as a percentage of enlarged issued share capital of the Company immediately following completion of the Acquisition	20.0 per cent.

Notes:

The above assumes that (a) no further Ordinary Shares are issued as a result of the exercise of options under the Company Share Schemes before completion of the Issue and (b) all of the Consideration Shares are issued and allotted immediately following completion of the Acquisition. The Acquisition will not apply to any Ordinary Shares that arise from the exercise of such options after the date of this document.

IMPORTANT INFORMATION

Market and industry information

Market data and certain industry forecasts used in this document were obtained from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy or completeness of such information is not guaranteed. Similarly, internal surveys, reports and studies and market research, while believed by the Company to be reliable and accurately extracted by the Company for the purposes of this document, have not been independently verified and the Company makes no representation as to the accuracy of such information. The industry forecasts are forward-looking statements. See “Cautionary note regarding forward-looking statements” below.

Cautionary note regarding forward-looking statements

This document and the information incorporated by reference into this document include statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “plans”, “annualised”, “goal”, “target”, “targeted”, “aim”, “may”, “will”, “would”, “could” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and the information incorporated by reference into this document and they include statements regarding the intentions, beliefs or current expectations of the Directors, the Company or the Group concerning, amongst other things, the results of operations, expectations in respect of the Acquisition, the financial condition, prospects, growth, strategies and dividend policy of the Group and the industries and markets in which it operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Company’s ability to control or predict. Forward-looking statements are not guarantees of future performance. The Group’s actual results of operations, financial condition, dividend policy and the development of the industries and markets in which it operates may differ materially from the impression created by the forward-looking statements contained in this document and/or the information incorporated by reference into this document. In addition, even if the results of operations, financial condition and dividend policy of the Group, and the development of the industries and markets in which it operates, are consistent with the forward-looking statements contained in this document and/or the information incorporated by reference into this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to, general economic and business conditions, industry trends, competition, changes in government and other regulation, including in relation to the environment, health and safety and taxation, labour relations and work stoppages, changes in political and economic stability and changes in business strategy or development plans and other risks, including in particular those Risk Factors described on pages 11 to 15 of this document (all such factors, and cautionary statements with respect thereto, collectively, “Cautionary Statements”). All subsequent written and oral forward-looking statements attributable to the Group or persons acting on behalf of the Group are expressly qualified in their entirety by such Cautionary Statements.

Except as required by the Listing Rules, the Disclosure and Transparency Rules, the Prospectus Rules, the London Stock Exchange or otherwise required by law or regulation, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

You are advised to read this document in its entirety for a further discussion of the factors that could affect the Group’s future performance and the industries and markets in which it operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document

and/or the information incorporated by reference into this document may not occur. Investors should note that the contents of these paragraphs relating to forward-looking statements are not intended to qualify the statements made as to sufficiency of working capital in this document.

Presentation of financial information

Information on basis of financial reports

Unless otherwise indicated, financial information for the Group in this document and the information incorporated by reference into this document is presented in pounds sterling and has been prepared in accordance with IFRS.

The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

In addition, unless otherwise indicated, all trading information included in this document not extracted from the Annual Reports and Accounts of the Group incorporated by reference is derived from the unaudited management accounts or internal financial reporting systems supporting the preparation of financial statements for the relevant periods. These management accounts and internal financial reporting systems are prepared using information derived from accounting records used in the preparation of the Group's financial statements, but may also include certain other management assumptions and analyses.

Currencies and currency exchange rate information

In this document and the information incorporated by reference into this document, references to "£", "sterling", or "GBP" are to the lawful currency of the United Kingdom, references to "US dollars", "US\$", "US¢" or "cents" are to the lawful currency of the United States and references to "TWD" are to the lawful currency of the Taiwan area of the Republic of China.

The noon buying rate of the pound sterling on 26 October 2010 was US\$1.5681 per £1.

No incorporation of website information

Neither the content of the Group's website (or any other website) nor the content of any website accessible from hyperlinks on the Group's website (or any other website) is incorporated into, or forms part of, this document.

The Company will provide without charge to each person to whom a copy of this document has been delivered, upon written or verbal request, a copy of any documents incorporated by reference into this document, except the exhibits to such documents will not be provided unless they are specifically incorporated by reference into the document. Requests for copies of such documents should be directed to the Company Secretary of Filtronic at Unit 2, Acorn Park, Charlestown, Shipley BD17 7SW.

Notice regarding US Securities law

Subject to certain exceptions, this document is intended for use only in connection with offers and sales of New Ordinary Shares outside the United States and is not to be sent or given to any person within the United States.

The New Ordinary Shares offered pursuant to this transaction have not been and will not be registered under the US Securities Act or qualified for sale under the laws of any state or other jurisdiction of the United States and may not be offered, sold, resold, transferred, distributed or delivered, directly or indirectly, in, into or within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable state securities laws. There will be no public offer in the United States. The New Ordinary Shares are being offered and sold (i) outside the United States in offshore transactions within the meaning of and in accordance with the safe

harbour from the registration requirements provided by Regulation S or (ii) within the United States solely in private placement transactions not involving any public offering in reliance on the exemption from the registration requirements of Section 5 of the US Securities Act provided by Section 4(2) under the US Securities Act or another applicable exemption therefrom.

None of the New Ordinary Shares, the Offer Document, this document nor any other document connected with this Offer have been approved or disapproved by the SEC, any state securities commission in the United States or any other regulatory authority in the United States, nor have such authorities passed upon, or endorsed the merits of, the offering or issue of the New Ordinary Shares or the accuracy or the adequacy of the Offer Document, this document or any other document connected with this Offer. Any representation to the contrary is a criminal offence in the United States.

Each person to which the New Ordinary Shares are distributed, offered or sold outside the United States will be deemed by acquisition of the New Ordinary Shares to have represented and agreed, on its behalf and on behalf of any investor accounts for which it is acquiring, subscribing or purchasing the New Ordinary Shares, as the case may be, that:

- (i) it is acquiring the New Ordinary Shares from the Company in an “offshore transaction” as defined in Regulation S; and
- (ii) the New Ordinary Shares have not been offered to it by the Company by means of any “directed selling efforts” as defined in Regulation S.

Each investor acknowledges that the Company will rely upon the truth and accuracy of the foregoing representations and agreements, and agrees that if any of the representations and agreements deemed to have been made by such investor by its acceptance or purchase of, the New Ordinary Shares, as the case may be, are no longer accurate, it shall promptly notify the Company. If such investor is accepting or purchasing the New Ordinary Shares as a fiduciary or agent for one or more investor accounts, each investor represents that it has sole investment discretion with respect to each such account and full power to make the foregoing representations and agreements on behalf of each such account.

Notwithstanding the foregoing, New Ordinary Shares may be offered to and acquired by a limited number of persons in the United States pursuant to an available exemption from registration under the US Securities Act. Any person to whom New Ordinary Shares are offered and by whom New Ordinary Shares are acquired will be required to complete an appropriate investor letter in which, among other things, it will warrant, undertake or acknowledge certain information and/or obligations, as the case may be, in order to participate in the transaction. Such warranties will include, among others, warranties as to the fact that (a) the investor did not become aware of nor were the New Ordinary Shares offered to the investor by any form of any general solicitation or general advertising (as such terms are defined in Regulation D of the US Securities Act), (b) the investor is acquiring the New Ordinary Shares as principal for its own account and not with a view to or for distributing or reselling such New Ordinary Shares or any portion thereof, without prejudice, however, to its right at all times to sell or otherwise dispose of all or any part of such New Ordinary Shares in compliance with applicable United States federal and state securities laws and (c) the New Ordinary Shares were offered to the investor solely by means of the Prospectus and by direct contact between the investor and the Company.

Each investor acknowledges that the New Ordinary Shares are “restricted securities” within the meaning of Rule 144(a)(3) of the US Securities Act and it represents that it will not resell the New Ordinary Shares absent registration or an available exemption or safe harbour from registration under the US Securities Act.

Furthermore, Filtronic does not currently intend on furnishing to any holder or beneficial holder of the New Ordinary Shares the information set forth pursuant to Rule 144A(d)(4) under the US Securities Act which may affect the holders ability to resell or transfer the New Ordinary Shares in the future.

Enforcement of civil liabilities

An Overseas Shareholder may not be able to enforce a judgment against some or all of the Directors. The Directors are residents of the United Kingdom. Consequently, it may not be possible for an Overseas

Shareholder to effect service of process upon the Directors within the Overseas Shareholder's country of residence or to enforce against the Directors judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the United Kingdom against the Directors who are residents of the United Kingdom or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors in any original action based solely on the foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

Other notices

Notice to all investors

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information contained in this document for any purpose other than considering an investment in the New Ordinary Shares is prohibited. By accepting delivery of this document, each offeree of the New Ordinary Shares agrees to the foregoing.

The distribution of this document and/or the issue of the New Ordinary Shares into jurisdictions other than the United Kingdom may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, subject to certain exceptions, such documents should not be distributed, forwarded to or transmitted in or into the United States or the Restricted Territories or into any other jurisdiction where the extension or availability of the Acquisition would breach any applicable law. For further information on the manner of distribution of the New Ordinary Shares, and transfer restrictions to which they are subject, see Part IV of this document.

No action has been taken by the Company or by Isotek that would permit an offer of the New Ordinary Shares or possession or distribution of this document or any other offering or publicity material in any jurisdiction where action for that purpose is required, other than in the United Kingdom.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or by Isotek. Neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date of this document or that the information in this document is correct as at any time subsequent to its date. No statement in this document is intended as a profit forecast.

In making an investment decision, each investor must rely on its own examination, analysis and enquiry of the Company and the terms of the Acquisition, including the merits and risks involved.

General Notice

Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

DIRECTORS, COMPANY SECRETARY AND ADVISERS

Directors

Howard Ford
Dr Hemant Kumar Mardia
Michael Peter Brennan
Reginald Lawrence Gott
Edwin Graham Meek
Alan Needle

Non-Executive Chairman
Chief Executive
Finance Director
Non-Executive Director
Non-Executive Director
Proposed Executive Director

Each of the Directors' business address is the Company's UK office address at Unit 2 Acorn Park, Charlestown, Shipley BD17 7SW

Company Secretary

Maura Eilis Moynihan

Registered Office

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HD8 0LA

PART I – INFORMATION ON FILTRONIC

1. Overview

Filtronic designs and manufactures a broad range of customised RF, microwave and millimetre wave components and subsystems. The Group's products are used in wireless communication equipment and point-to-point communication systems by leading international OEMs.

Filtronic's strategic objective is to be a leading microwave electronics supplier to the wireless telecoms market by utilising its proprietary technologies and engineering expertise and applying these competencies to markets which offer opportunities for sustainable rates of growth and return. Filtronic addresses these opportunities by designing and supplying sophisticated and customised RF microwave and millimetric products to meet its customers' requirements and by continuing to develop its global relationships with these customers.

2. History and Development

The Company was founded in 1977 to undertake research, development and manufacture of microwave filters and subsystems for applications in defence and communication. Between 1981 and 1985, Advent Limited and Apax Partners & Co. Ventures Limited made equity investments in Filtronic.

In October 1994, having demerged from the original Filtronic, Filtronic Comtek plc was listed on the London Stock Exchange. The business was subsequently renamed Filtronic plc following the acquisition in March 1998 of Filtronic Components Limited and Filtronic Cable Communications Limited.

Over the next two years the Company embarked on a period of extensive growth through a number of acquisitions and also the formation of new business units. The business subsequently reorganised into three main units in 2003: Wireless Infrastructure, Handset Products and Integrated Products. The Handset Products business was then sold in 2005 for a consideration of £56.7 million.

In October 2006, Filtronic disposed of the majority of its wireless infrastructure division, comprising transmit/receive filters, integrated remote radio heads and power amplifier products, all for use in commercial wireless infrastructure base station equipment, for shares and cash then worth \$298 million.

In October 2007, Filtronic disposed of the Defence Electronics business of Sage Laboratories Inc. for a consideration of £2.0 million. In March 2008, Filtronic disposed of its loss-making Compound Semiconductor business to RF Micro Devices Inc. for a consideration of £12.5 million. In August 2008, Filtronic disposed of its Defence business to Teledyne Technologies Incorporated for a consideration of £13 million (on a cash free debt free basis).

Following the above disposals and the return of £119 million of cash to shareholders, the Company comprised only the point-to-point business, which the Directors had identified as a sub-sector with ongoing strong growth potential.

3. Industry Overview

The Company's products are used in wireless communication equipment and point-to-point communication systems by leading international OEMs. Specifically Filtronic's transceivers handle the transmit and receive functions used in a segment of wireless infrastructure known as wireless backhaul radios.

Wireless Backhaul radios

The market for wireless backhaul solutions showed strong volume growth (15–25 per cent. per annum) from 2005 to early 2008, driven by a combination of network roll-outs in emerging markets and network upgrades in developed markets. Since that time the market has been characterised by a fall in capital expenditure from large telecoms companies though the Directors expect capital expenditure to re-enter a growth phase in 2011. Strong growth of data traffic globally presents mobile operators with a pressing need to address challenging service issues, which in turn creates new opportunities for mobile telecoms equipment providers such as Filtronic and Isotek.

Emerging markets have continued to provide a strong platform for growth as the lack of established infrastructure increases the appeal of radio solutions over fibre optic cabling. Mobile phone rates of penetration in many key emerging markets such as China and India remain below US and European levels, and as this increases so will the requirements for backhaul wireless components.

In developed markets, growth over recent periods has primarily been attributed to the rising demand for smartphones and the associated increase in data requirements. This increasing data demand requires more radio capacity and this demand has driven a requirement for backhaul capacity, particularly in dense urban areas.

Integrated solutions

OEMs in the backhaul wireless market can be split between those that build their own modules from component parts and those that buy them in as a single unit. Given its focus on producing modules as a single unit Filtronic, until recently, had not supplied chips to OEMs who built their own modules. In response to industry changes Filtronic has moved to supply chip based solutions to OEMs as well as integrated modules, leveraging Filtronic's expertise in producing chips.

Gigabit radios

Further growth in Filtronic's accessible market is expected to be driven by the requirement for solutions which provide significantly higher bandwidth capacity in densely populated areas. This can be achieved by using a wider band of radio spectrum, in excess of 1 gigabit (typical backhaul bandwidth is only circa 200 megabits).

The additional spectrum made available is at higher frequencies, beyond the range currently available from Filtronic and its main competitors. Radio modules operating at these frequencies require highly sophisticated semiconductor technology. Filtronic's expertise offers the capability to develop a semiconductor platform for this type of solution. Research and development work in relation to this is ongoing and targets a competitively priced product available for anticipated market demand growth in 2012.

Competition

Filtronic competes with other merchant suppliers to the point-to-point microwave components market including Endwave (Nasdaq: ENWV, market cap US\$21.1 million) and a division of Microelectronics Technology Inc. ("MTI", Taiwan:2314, market cap USD\$251.2 million). By late 2007, Filtronic had overtaken these more established module vendors to become the leading merchant supplier by revenue in this segment and has maintained this position since that time. Filtronic products also compete with the internal groups within certain of the large OEMs who choose to build their own modules for inclusion within their radio units (for example Ericsson and NEC) or buy in fully integrated radio units (for example Huawei). This integrated approach represents over 60 per cent. of the market which is not addressable for Filtronic's modules.

More recently, competition has increased from microwave semiconductor suppliers seeking to supply more integrated chips to OEMs. Filtronic's new multi chip package aims to compete with such suppliers in a lower value but potentially higher volume market, and has already been instrumental in securing next generation platform business with two OEMs, including the new OEM customer announced in January 2010. Sales to this customer are expected to commence in H2 FY11.

The gigabit radio sector is at an early stage of development but a number of US venture backed start-ups are providing product to this market sector in small but increasing volumes.

4. Principal Activities

Filtronic currently comprises the point-to-point business which designs and manufactures customised microwave electronic sub-assembly components that are integrated by OEMs into point-to-point radios. These radios provide the backhaul links for telecom networks, particularly the mobile base station market. Filtronic is a leading merchant supplier of transceiver modules and waveguide duplex filters to this market.

Transceiver modules

Wireless backhaul radios are high bandwidth wireless links used to link mobile base-stations into the wider network. They are an alternative to using a fibre optic link. They operate at very high frequencies, which means they require a high power signal to provide an acceptable range.

Due to the power and high frequency requirements for the radios, the design and manufacture of Filtronic's modules requires very sophisticated electronics. The actual chips used need to be based on compound semiconductors such as gallium arsenide which are more effective than silicon. The chips, known as MMICs, produced by Filtronic have been designed to be highly flexible and cost efficient for use in wireless backhaul radios.

Product development over the years has led to the integration of functions previously performed across a number of chips to a smaller number such that the number of chips required per module has reduced from 30 to three in the current generation product, saving on space and expense.

Filtronic designs and manufactures highly integrated, cost-effective transceiver modules for use in point-to-point radio systems addressing the requirements of fixed access and trunk applications. Designs offer low phase noise, high linearity performance demanded by high capacity modulation schemes of up to 256 quadrature amplitude modulation. Products are designed to customer specifications and incorporate Filtronic's MMIC and Multi-Function MMIC chipset solutions through the close technical cooperation with leading gallium arsenide foundries.

Filtronic leverages the unique offering of vertically integrating Multi-Function MMIC devices to complete transceiver modules in order to continue to develop innovative products in the 6-38 GHz frequency bands and maintain its strong competitive advantage. Every product is designed to meet specific customer requirements.

Waveguide diplexers

Waveguide diplexer products are developed and manufactured to high-end customer specifications for point-to-point and point-to-multipoint volume applications covering the frequency range from 7-38 GHz. Products in manufacture have capabilities, through high levels of integration, to offer solutions incorporating high frequency rejection filters to 80 GHz, RF loop and isolators as required. The manufacture of these parts utilises sophisticated engineering solutions and manufacturing processes to ensure technically compliant and products that are at the forefront of technology.

5. Principal Markets

Filtronic supplies microwave products for the global wireless telecoms market. The Group's products have been delivered to leading international OEMs who operate worldwide.

Network expansion in developing regions is expected to lead to an increase in demand from 2011 as past debt availability problems constraining infrastructure spend are resolved. On a similar time scale, capacity upgrades will be needed in developed markets to cope with rapidly increasing 3G and 4G requirements, and the Directors believe will continue to drive demand for point-to-point products.

Filtronic supplies a niche range of products, (principally radio modules) to a small number of large, sophisticated OEM customers. Filtronic's addressable market for such sales has historically been limited by a significant number of such OEMs choosing either to produce their own modules as part of an in-house fully integrated radio or to buy in component parts.

In order to extend its addressable market Filtronic has invested in the development of a more integrated chip set solution which it has recently started to make available to OEMs who do not buy in modules, but do purchase the chip sets for such modules. A significant attraction of such chips will be their lower cost for equivalent technical performance but Filtronic's competence as a reliable developer and supplier of modules is also a service differentiator versus semiconductor companies.

Although such chip set sales will move down the value chain the Company has also addressed an opportunity to move up the value chain into the emerging niche area of higher frequency radios. The backhaul market is

challenged by lack of bandwidth and significant new bandwidth is being made available at much higher frequencies than those currently used: 68-86 GHz (“E band”) versus the current high end 38GHz. Such technically challenging solutions offer large bandwidth and high data carrying capacity and are known as gigabit radios.

The high frequencies involved require the development of a new semiconductor platform and Filtronic is researching this with the assistance of a £1.25 million research grant awarded by Yorkshire Forward with support from the European Regional Development Fund. The Company’s E band products are targeted to be available in the financial year commencing June 2012 which aim to fit with a developing market.

In April 2009, the Company announced that it had entered into a long-term strategic supply agreement with SELEX Airborne Systems Limited (operating on the markets as SELEX Galileo). The first order under this agreement was received in July 2009 initiating the development of Filtronic’s volume capability to manufacture SELEX’s microwave modules for their current generation of active electronically scanned array airborne radars. These radars utilise a large array of transceiver modules to provide a new generation of radars with increased performance. Filtronic’s process capabilities provide the level of sophistication and automation required for manufacture and long term supply of these products.

It is anticipated that this will lead to multi-million pound annual revenues when SELEX’s major programs enter volume production. These programs involve radars for aircraft but also for civil defence and security applications. Initial production orders are expected for late in the current financial year. Whilst full scale benefits are not likely to be seen until the financial year commencing June 2013, this business is expected to enjoy greater product longevity than for other radio module products.

The point-to-point business sells overwhelmingly to European based OEM customers (over 90 per cent. in each of the last 4 years). However Filtronic’s units are installed by its OEM customers in radio units which are then supplied to a worldwide market. It would therefore be misleading to believe that Filtronic is wholly dependent upon European telecoms demand. For example it will be noted from the Operating and Financial Review on Filtronic (Part V) that the fall in revenue in FY09 related to reduced Asian demand (Indian in particular), despite the fact that Filtronic did not sell any product directly to Asia in that period.

6. Research and Development

The long term profitability of the Enlarged Group will depend, amongst other factors, upon its ability to continue to offer innovative and cost competitive technical solutions to its customers’ key problems.

Despite the downturn in its revenue over the past 3 years Filtronic has continued to invest in future product development. In December 2009 a research grant of £1.25 million was awarded by Yorkshire Forward with support from the European Regional Development Fund to assist in the development of a new product to target the emerging market for 4G mobile broadband services.

This grant assisted in allowing Filtronic to sustain an FY10 spend on point-to-point research and development of £2.3 million (FY09/08/07 £1.8 million, £2.2 million, £1.9 million).

Relative to the reducing point-to-point sales this represented a strong commitment to maintaining the future pipeline for new and cost-reduced products. The business was in part able to deliver this by sustaining a strong focus on reducing other fixed costs. Corporate overheads were reduced in line with the program of business disposals.

Filtronic’s point-to-point business has significant intellectual property but is also dependent upon its ability to steadily reduce prices whilst producing consistently high quality products. An important element within R&D and engineering is therefore focused upon manufacturing improvements.

7. Key Strengths

The Directors believe that the Company’s clear understanding of existing and emerging communications standards coupled with substantial development experience facilitates rapid product turnaround times, whilst state-of-the-art manufacturing facilities at Newton Aycliffe, underpinned by strategic investment in leading edge equipment and techniques, facilitate Filtronic’s products being seamlessly introduced in high volume production.

Customised MMIC technology

Filtronic leverages its unique offering of vertically integrating Multi-Function MMIC devices to complete transceiver modules in order to continue to develop innovative products in the 6-86 GHz frequency bands and maintain its strong competitive advantage. These components enable OEM customers to deliver new generations of cost effective radios needed to address the backhaul data bottlenecks created by the growth of mobile data demand.

Increased customer and product diversification

The Company has sustained its expenditure on core technology and new product development to position itself with a competitive range of products, including one targeting the emerging market for 4G mobile broadband services. Progress has also been made in broadening the customer and product bases with a view to sustaining the Group's leading position in the sector.

To that end the Company signed a major new OEM in December 2009 and volume shipments for this customer are expected in calendar year 2011.

Volume shipments of the SELEX active electronically scanned array module are also likely to add significantly to revenues during 2011.

In the same time frame, market expectations are for robust underlying drivers to initiate substantial growth in mobile broadband infrastructure demand, and the Board believes that its continued investment in customer and product diversification places the Group in a stronger position to benefit from this growth.

Through its OEM customer base, Filtronic products have been delivered worldwide. By applying its competencies and expertise, Filtronic continues to be a world leader in the supply of RF, microwave and millimetre-wave products for the wireless communications industry and adjacent markets.

Manufacturing Capability

Filtronic has invested in a world class automated manufacturing facility co-located with its development teams and offering a volume supply capability with the high degree of flexibility demanded by the mobile telecoms market. Development work is done in close partnership with OEM customers.

8. Summary audited financial information

Filtronic

<i>In £000's for the year ended 31 May</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
<i>Income Statement Items</i>			
Revenue	15,575	28,779	40,133
Op. (loss)/profit before exceptionals from continuing ops	(292)	2,080	2,522
Exceptional items	(842)	(937)	(26,029)
(Loss)/Profit before taxation	(1,021)	2,266	(16,200)
(Loss)/Profit from continuing operations	(1,021)	2,266	(16,200)
<i>Balance Sheet Items</i>			
Total Assets	23,602	27,524	54,740
Total Liabilities	3,717	5,948	15,827
Net Assets	19,885	21,576	38,913

Source: Filtronic audited accounts for the years ended 31 May 2010, 31 May 2009 and 31 May 2008.

9. Current trading and prospects

As expected, trading conditions for Filtronic's existing point-to-point business have remained difficult into this financial year. Trading in the first quarter has however improved from the weak final quarter of last year, with sales of around £1.0 million per month being in line with the monthly run rate in the second half of last year. Whilst revenues for September will show an improvement on this level, this does not affect the Directors' assessment of the likely result for the year as a whole.

Isotek has continued to develop its sales prospects, progressing to production volumes with 2 customers. Sales remain consistent with Filtronic's previously disclosed expectations of £5 million for the post-Completion period to 31 May 2011.

Clarification regarding Evening Gazette and The Journal, Newcastle articles dated 3 August 2010

On 3 August 2010, following publication of Filtronic's preliminary results for the period to 31 May 2010, The Evening Gazette reported the Company as stating that "*it expected further losses in the first half of the next financial year amid subdued market activity*". The quote does not accurately reflect the Company's statement of 2 August 2010, nor were there any conversations between the Company and the Evening Gazette. The Company, in its statement of 2 August 2010 stated that "*demand outlook through the summer remains constrained due to customer inventory overhang. Consequently further small operating losses are expected into the first half of the next financial year*". The Company did not wish to attribute either losses or earnings to any particular period or periods, only to indicate that for some unspecified part of the first half the Company would make an unspecified level of operating losses but that this did not imply any level of profitability for the first half of 2011 in total, nor for any specific part of the first half. This does not constitute a profit forecast.

The Journal, Newcastle, reported on 3 August 2010 that Filtronic "*said that it expected to be back in profit in the second half of next year*". The article includes quotes from both Mr Ford and Mr Mardia but the key words reproduced above are not quotes nor are they attributed. This statement does not accurately reflect the Company's announcement of 2 August 2010, nor the discussion between representatives of the Company and the Journal held on that day. These discussions included reference to other elements of the Company's statement including "market expectations of a 2011 demand recovery" from the Chairman's statement and are expected to add significantly to revenue during calendar year 2011. In the same time frame, market expectations are for robust underlying drivers to initiate substantial growth in "mobile broadband infrastructure demand" from the Operating Review. The Company did not wish to attribute either losses or earnings to any particular period or periods but instead to provide a background as to expected demand for its products and the underlying drivers behind the business (without stating the impact on earnings in any particular year or period). This does not constitute a profit forecast.

10. Background to and reasons for the Acquisition

On 16 October 2006, Filtronic announced that it had completed the disposal of the majority of its wireless infrastructure division, comprising transmit/receive filters, integrated remote radio heads and power amplifier products, all for use in commercial wireless infrastructure base station equipment, for shares and cash then worth \$298 million. The market for these products had at that time reached a stage of relative maturity driven by increasing commoditisation of product and margin pressure.

Since that disposal Filtronic has watched the rapid development of the wireless telecoms market with interest (whilst continuing to develop and supply products into the wireless infrastructure backhaul market) and has recently evaluated opportunities to transform the range and size of the Group's business by acquiring a business operating in a different segment of the base station market.

Isotek is a developer and marketer of wireless telecoms products. It is run and owned primarily by members of Filtronic's former senior management, who had previously delivered the successful growth of Filtronic from start up and through flotation. Isotek would be fully integrated as a separately branded subsidiary of the Group, with its management team remaining in place. Isotek has developed an established reputation, and significant goodwill, in the wireless telecoms market and consequently the Isotek brand would be retained and used, at least in the short to medium term, to market and develop Isotek's wireless telecoms business.

Alan Needle (formerly an executive director of Filtronic), and Dr Christopher Mobbs (former executive director and former CTO of Filtronic) will continue to run this business segment under the proposed acquisition. Professor David Rhodes (Filtronic's founder and a former CEO) will have an honorary position providing external technical consultancy to the business segment. Isotek has made substantial investments in innovative new technology, resulting in the creation of new intellectual property, which Filtronic believes provides Isotek with a significant competitive advantage. It is proposed that, on Completion, Alan Needle

will be invited to join the board of Filtronic as an executive director. A summary of the terms of Alan Needle's service agreement is set out in paragraph 8.5 of Part X of this document.

The Acquisition is in line with Filtronic's strategy to create a differentiated, high growth wireless telecoms business through organic growth and selective acquisitions. The Directors believe that the Acquisition will deliver significant opportunities in the base station market sector, by combining the Group's resources, experience and operational expertise with Isotek's highly differentiated intellectual property, brand and products.

The Directors believe that the Acquisition is likely to increase the Group's turnover in the year ending 31 May 2012 ("FY12") by around £15 million. The deal is expected to be earnings enhancing in FY12 and significantly earnings enhancing in the second full year of ownership.

In the longer term the Directors believe that as a result of the Enlarged Group's greater critical mass, it will be well positioned to take advantage of further opportunities in future industry restructuring.

11. Details in relation to the Acquisition

Due to the size of Isotek's shareholder base the Acquisition will be made by way of the Offer and the Offer Document has today been posted to Isotek Shareholders.

The consideration payable under the Offer comprises cash consideration and the issue of the Consideration Shares. On 30 July 2010, being the date of the Warranty and Indemnity Deed, the cash consideration was agreed at £4,350,000 on the assumption of net debt in Isotek at Completion of £1,400,000. Based on the closing mid-price per Ordinary Share of 35.75 pence as at 27 October 2010, this implies an aggregate consideration of approximately £11.0 million.¹

On this basis, and assuming a fully diluted share capital of Isotek of 14,889,114 ordinary shares of 1p each, the consideration payable on Completion will equate to £0.2921597 and 1.2458766 Ordinary Shares for each ordinary share of Isotek.

The Consideration Shares will, when issued, represent circa 20.0 per cent. of the enlarged share capital of the Company and will rank *pari passu* in all respects with the existing Ordinary Shares. Applications will be made to the UKLA for the Consideration Shares to be admitted to the Official List and to the London Stock Exchange for the Consideration Shares to be admitted to trading on the London Stock Exchange's market for listed securities.

The consideration payable under the Offer will be subject to the adjustments set out in the Warranty and Indemnity Deed and the Offer Document, further details of which are summarised in Part IV of this document.

The Offer, is subject, *inter alia*, to acceptance by not less than 90 per cent. of the shares to which the Offer relates, the approval of the Shareholders (as a Class 1 acquisition) and admission of the New Ordinary Shares to the Official List. Filtronic has received irrevocable undertakings from over 90 per cent. of the Isotek Shareholders (on a fully diluted basis) to accept the Offer.

The key vendors of Isotek have given Filtronic customary warranties and indemnities and have entered into a restrictive covenant not to compete with the business of Isotek for a period of three years.

The Consideration Shares issued to the Accepting Shareholders on Completion will be subject to escrow arrangements in the event of any shortfall in the working capital or increase in net debt or claims under the Acquisition documents. During the relevant escrow period Filtronic shall be entitled to sell such number of Escrow Shares to satisfy the amount of any such shortfall or such claim. Further details of the escrow arrangements are set out at paragraph 8 (Share Escrow) of Part IV. Following the expiry of six months from Completion, 50 per cent. of such Escrow Shares (assuming no working capital or net debt adjustments or claims under the Acquisition documents) will be released from these arrangements; and the remaining Escrow Shares (assuming no claims under the Acquisition documents) will be released from these escrow arrangements following the expiry of 24 months from Completion.

¹ The Directors believe that the net debt in Isotek at Completion is likely to be approximately £1,520,000. Based on this assumption (and that there are no other adjustments as at Completion), the cash consideration would be £4,230,000 which will equate to £0.2841001 and 1.2458766 Ordinary Shares for each ordinary share of Isotek.

PART II – INFORMATION ON ISOTEK

1. Introduction and overview

Isotek Electronics Limited, the principal subsidiary of Isotek, is a strategic supplier to large multinational companies in the telecoms market. Isotek is the holding company of the Isotek group of companies, which develops and markets leading-edge telecoms products for a range of wireless infrastructure applications. These products, comprising innovative filters and combiners, enable operators to use their existing 2G infrastructure also to deliver 3G and 4G services simultaneously, with a minimum of switch-over downtime.

Isotek's subsidiaries also include Isotek Limited, Isotek Inc (incorporated in US) and Isotek Hong Kong Holdings Limited (incorporated in Hong Kong).

2. History and development

Founded in 1978 to design and manufacture computer based control systems, Isotek diversified into a wide area of expertise including aerospace, blade welding, sub-sea robotics, telemetry systems, industrial controls and vehicle suspension systems.

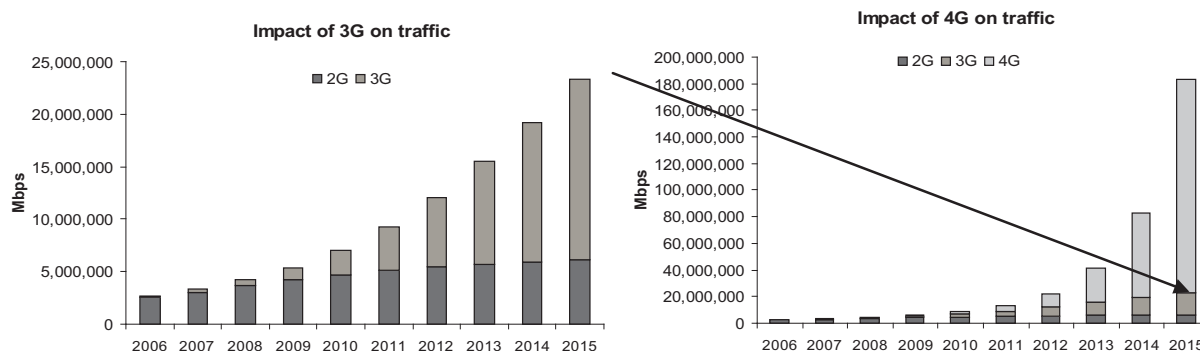
In 2006, some members of the Filtronic Global R&D group left Filtronic and joined Isotek to create its wireless telecoms business.

In 2009, the merger with Xavier RF gave Isotek a US foothold and resulted in new product introduction and pre-production capabilities in both the United States and Europe and volume manufacturing with DSBj, a Chinese partner located in Suzhou.

In 2010, Isotek Electronics divested itself of all but its wireless telecoms business.

3. Industry overview

The mobile wireless network consists of a large number of base station sites throughout a given region. These base stations communicate with mobile phones, PDA's and portable computers, connecting a subscriber into the system. For example, in the UK there are four major mobile operators, each of which may have tens of thousands of base stations with the majority located in the large urban areas and major trunk routes. Each operator has bought one or more licences to use a specific frequency band within which they are allowed to transmit and receive RF signals and are not allowed to cause interference outside the frequency band that they operate in.



Source: Ovum 2010

The need to avoid interference requires a portion of the valuable licensed band to be consumed as a buffer against adjacent users. As use of spectrum intensifies, this is leading to demand for products improving spectrum utilisation. The move to rapidly overlay 3G and 4G data services with differing protocols onto existing 2G voice networks also sets new challenges for network upgrades by operators to be delivered without disruption. In order to speed the rollout of new services, whilst minimising costs, it is important to optimise spectrum utilisation across the network of existing base station sites. Furthermore, as additional

frequency bands are released for mobile use, the proximity of existing systems such as high power digital TV broadcast will require increasingly technically complex combining and interference mitigation solutions.

Strong growth of data traffic globally presents mobile operators with a pressing need to address these challenging service issues, which in turn creates new opportunities for mobile infrastructure equipment providers such as Filtronic and Isotek.

The Directors believe that there is a significant worldwide addressable market for base station filters, estimated (by a Filtronic commissioned external consultant's report¹) to total around £370 million in 2012 and that this market will show rapid growth over the next few years driven by the adoption of 4G services. This provides a long-term opportunity for continuing growth in this market, focused on the development and customisation of technically innovative products.

4. Principal activities

Isotek develops and markets leading-edge telecoms products for a range of wireless telecoms applications. These products, comprising innovative filters and combiners, enable operators to use their existing 2G infrastructure also to deliver 3G and 4G services simultaneously, with a minimum of switch-over downtime. This can bring significant cost savings by eliminating the need to upgrade or replicate network infrastructure in some cases, as well as improving the use of the available spectrum. These products are typically highly customised by Isotek's engineering teams according to the local requirements of specific OEMs or operators, and offer significant cost and performance advantages over alternative products.

Isotek currently has 28 employees, including an engineering team of 16, based in the United Kingdom, in the United States and in China. Products are being manufactured by a subcontract manufacturer in China at competitive cost and on favourable credit terms.

Isotek's engineering team has a history of developing leading edge telecoms products. Over the last three years, Isotek has filed a series of patent applications covering the innovative filter and combiner technology used in its products. By applying patented technology, Isotek offers filter solutions that can be actively tuned over a wide frequency range in addition to being bandwidth variable over a 5 to 1 ratio. This allows a single device to cover geographic markets and sub-bands.

The proliferation of co-existing communication standards (for example GSM, CDMA, WCDMA, WiMAX, LTE) on adjacent frequency bands puts new requirements on filtering and combining of signals, which ensure compliance with regulatory spectral emission requirements and enhanced receiver performance.

Isotek uses its New Product Introduction process for all customer specific design requirements. Detailed reviews are carried out at each stage of the product development to ensure all requirements are met. This provides a robust means of ensuring any proposed solution is designed for compliance as well as considering other 'Design For' (DFx) issues such as cost, yield and ease of manufacturing.

5. Summary financial information

Isotek

<i>In £000's for the year ended 31 May</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Income Statement Items			
Revenue	789	433	124
Op. loss from continuing ops	(1,874)	(1,457)	(901)
Loss before tax	(1,905)	(1,446)	(891)
Loss from continuing operations	(1,695)	(1,256)	(717)
Balance Sheet Items			
Total Assets	757	571	679
Total Liabilities	(1,063)	(268)	(14)
Net (Liabilities)/Assets	(306)	303	665

Source: The financial information on Isotek contained in Part VII of this document.

¹ Tribute to Innovation, Cellular RF Filter Market, 15 May 2010.

6. Research and Development

Over the past 3 years Isotek has invested more than £5 million in the development of its wireless infrastructure business. In this period it has filed a series of patent applications covering the filter and combiner technology used in its products. Isotek's products are not dependent on 3rd party patents or licences, nor do they rely upon protected manufacturing processes. Products are manufactured by a Chinese subcontract manufacturer at competitive cost and on favourable credit terms.

7. Key strengths

Well positioned for future changes in the industry

Based on discussions with customers with major potential, the Directors believe that Isotek's products solve key technical challenges and offer significant benefits over alternatives.

The Directors believe that Isotek products are strongly positioned to take advantage of opportunities requiring strong technical sophistication when backed and supported by the Company's existing resources and key relationships.

Traction is now being achieved with key customers with the potential for an early step change in business revenues. Products have been developed, manufactured and now qualified in customer trials in both the United States and Europe and have led to initial production orders from tier one OEMs and operator customers. New prospects at major operators with products in trial phase provide a platform for potential rapid revenue growth.

IP and patents

Isotek has made significant investments in innovative new technology, resulting in the creation of new IP, which Filtronic believes provides Isotek with a significant competitive advantage. Isotek offers highly differentiated intellectual property and products. Over the last three years, Isotek has made a series of patent applications covering the filter and combiner technology used in its products. By applying patented technology, Isotek offers filter solutions that can be actively tuned to different required bandwidths within the relevant cellular band.

Customised products

Isotek develops and markets leading-edge telecoms products for a range of wireless telecoms applications. These products, comprising innovative filters and combiners, enable operators to use their existing 2G infrastructure also to deliver 3G and 4G services simultaneously, with a minimum of switch-over downtime. This can bring significant cost savings by eliminating the need to upgrade or replicate network infrastructure in some cases, as well as improving the use of the available spectrum. These products are typically highly customised by Isotek's engineering teams according to the local requirements of specific OEMs or operators, and offer significant cost and performance advantages over alternative products.

PART III – INFORMATION ON THE ENLARGED GROUP

1. Strategy of the Enlarged Group

Filtronic's strategic objective is to be a leading microwave electronics company by utilising its proprietary technologies and engineering expertise throughout the world and applying these competencies to markets which offer opportunities for sustainable and exceptional rates of growth and return.

The Acquisition is in line with Filtronic's strategy to create a high growth, higher margin, wireless telecoms business. In the longer term the Directors believe that as a result of the combined business's greater critical mass, the Enlarged Group will be well positioned to take advantage of further opportunities in future industry restructuring.

Restricted credit for large capital projects, and delays in the award of new spectrum licences have both contributed to slow the roll-out of network expansion in developing markets. In developed economies, the rapidly expanding needs of mobile data users has led to a temporary hiatus in infrastructure expenditure. To address this pent up consumer demand, network operators are seeking to transition to a new generation of higher capacity, cost efficient and lower power consumption infrastructure equipment. Such products (containing Filtronic components) are now emerging, but many operators have yet to commit to their chosen solution.

To meet this growing demand, Filtronic has sustained its expenditure on core technology and new product development to position itself with a competitive range of products, including one targeting the emerging market for 4G mobile broadband services. Progress has also been made in broadening the customer and product bases with a view to sustaining the Group's leading position in the sector.

2. Key Strengths of the Enlarged Group

Customised products

The Enlarged Group will offer customised products to enable operators to maximise return on investment by allowing them to use their existing 2G infrastructure to also deliver 3G and 4G services simultaneously, with a minimum of switch over time. This is expected to bring significant savings in the cost of capacity upgrades.

Intellectual Property ("IP") and patents

Isotek has made significant investments in innovative new technology, resulting in the creation of new IP, which Filtronic believes will provide the Enlarged Group with a significant competitive advantage.

Well positioned for future restructuring in the industry

The Directors believe that there is a significant worldwide addressable market for base station filters, estimated (by a Filtronic commissioned external consultant's report¹) to total around £370 million in 2012 and that this market will show rapid growth over the next few years driven by the expansion of 3G and the adoption of 4G services driven by the rapid expansion in the use of smartphones, netbooks and other data devices. This provides a long-term opportunity for continuing growth in this market, focused on the customisation of technically advanced products.

The Acquisition is expected to deliver rapid entry into the base station market sector, by combining the Company's reputation, resources and market access with Isotek's highly differentiated intellectual property and products. Filtronic's background and point-to-point market position is expected to be attractive to operators and OEMs looking for a stable supplier of scale as well as new and customised solutions to new problems.

In the longer term the Directors believe that as a result of the Enlarged Group's greater critical mass, it will be well positioned to take advantage of further opportunities in future industry restructuring. Network expansion in developing regions and capacity upgrades in developed regions continue to drive demand for

¹ Tribute to Innovation, Cellular RF Filter Market, 15 May 2010.

point-to-point products. Filtronic is well placed to exploit these market opportunities as well as extending into adjacent market sectors.

Customer and product diversification

The Enlarged Group will offer a wide range of products to a larger customer base including both OEMs and operators.

Operations and infrastructure as a long term established leading supplier to OEMs

Since commencing operations in 2001 the point-to-point business has established a strong reputation as a leading supplier to OEMs. This has in part been achieved by Filtronic's ability to offer cost advantages as a result of reducing the complexity of manufacture of transceiver modules. This in turn has been made possible by the investment in a world class automated manufacturing facility co-located with development teams, leveraging proprietary semiconductor technology. The facility offers a volume supply capability with a high degree of flexibility which is advantageous in a market which can demand high volume, and reliable supply with short lead times.

The strong relationships built by the point-to-point business with OEMs, as well as its continued reputation for service levels may assist in the development of basestation filter sales with such OEMs.

The strength of the OEM relationships and the greater financial stability afforded by Filtronic's strong balance sheet, has the potential to set Isotek apart from other startups from the perspective of key OEMs.

The Company's market position is expected to improve Isotek's ability to take advantage of the strong growth in 4G mobile data traffic with its new customised microwave filter solutions.

3. Effects of the Issue

Upon completion of the Issue, the New Ordinary Shares will represent approximately 20 per cent. of the Company's enlarged issued ordinary share capital.

The Directors believe that the Acquisition is likely to increase Filtronic's turnover in the year ending 31 May 2012 ("FY12") by around £15 million. The deal is expected to be earnings enhancing in FY12 and significantly earnings enhancing in the second full year of ownership. As at 31 May 2010, pro forma net assets were £25.4 million, compared to Filtronic's net assets of £19.9 million (Source: Pro forma statement of net assets in Part VIII of this document).

4. Dividend policy

An annual dividend of 1.00p per share (£0.7 million) in respect of FY10 will be paid on 5 November 2010 to the shareholders on the register at the close of business on 8 October 2010. An annual dividend of 1.00p per Share (£0.7 million) for FY09 was paid in November 2009.

It is the Board's intention to maintain, and to increase, the annual dividend, subject to the Enlarged Group's financial results and condition, its cash requirements, future prospects, profits legally available for distribution and other factors deemed by the Board to be relevant at the time.

PART IV – SUMMARY OF THE TERMS AND CONDITIONS TO THE OFFER

1. Document and parties

The Warranty and Indemnity Deed was entered into on 30 July 2010 between the Warrantors, the Company and Isotek. This Warranty and Indemnity Deed governs the making of the Offer, the right of termination (and the withdrawal of the Offer) and the form of the warranties and indemnities.

2. Structure of the Acquisition and terms of the Offer

The Acquisition is being effected by way of an offer to purchase the existing issued, and to be issued, share capital of Isotek on the terms set out in the Offer Document.

3. Consideration

The total Consideration payable by the Company in respect of the entire issued and to be issued share capital of Isotek shall be as follows:

- (a) an aggregate of £4,350,000 by way of cash consideration; and
- (b) the allotment and issue of 18,550,000 Ordinary Shares (which will represent approximately 20 per cent of the enlarged capital of the Company),

subject to the adjustments (in respect of the cash consideration) and conditions set out in the Offer Document.

The consideration has been determined on the basis of the expected working capital of Isotek at Completion being £1,000,000 and the cash consideration of £4,350,000 has been determined on the assumption (made on 30 July 2010, being the date of the Warranty and Indemnity Deed) that the net debt in Isotek at Completion is £1,400,000. Based on the closing mid-price per Ordinary Share of 35.75 pence as at 27 October 2010, this implies an aggregate consideration of approximately £11.0 million.¹

4. Conditions

The Offer is subject to, *inter alia*:

- (a) acceptance by not less than 90 per cent. of the shares in Isotek to which the offer relates, and Completion is conditional upon:
- (b) a resolution being passed by Shareholders approving the Acquisition;
- (c) delivery of certain documents by the Warrantors; and
- (d) there not having occurred a material adverse change in Isotek's business, a material breach of warranty or a breach of certain provisions of the Warranty and Indemnity Deed prior to Completion; and
- (e) admission of the New Ordinary Shares to the Official List.

5. Pre-Completion obligations

The Warrantors have undertaken, pursuant to the terms of the Warranty and Indemnity Deed, that, during the period prior to Completion, Isotek will carry on its business as a going concern in the ordinary and usual course and will not take certain actions without the prior written consent of the Company. The Warrantors are also bound by certain other restrictions prior to Completion, pursuant to the Warranty and Indemnity Deed, as set out in full in Appendix II to Part I of the Offer Document.

¹ The Directors believe that the net debt in Isotek at Completion is likely to be approximately £1,520,000. Based on this assumption (and assuming no other adjustments as at Completion), the cash consideration would be £4,230,000.

6. Rights of termination

The Company has a right to terminate the Warranty and Indemnity Deed prior to Completion in the event that the Offer Conditions have not been satisfied, or become incapable of being satisfied, and are not waived by the Company, by 1.00 p.m. on 30 November 2010, or the Company becomes aware of an occurrence that constitutes, or is likely to constitute, a material adverse change in Isotek's business or a material breach of warranty, or there is breach of certain clauses of the Warranty and Indemnity Deed. In the event that the Offer has been made, and any of the aforementioned events occurs, the Company shall be entitled to withdraw the Offer in accordance with its terms.

7. Warranties, indemnities and restrictive covenants

The Warrantors have provided certain warranties and indemnities to the Company in the Warranty and Indemnity Deed. These warranties and indemnities relate, inter alia, to accounting and financial matters, legal compliance, intellectual property matters, product liability, taxation, litigation, property and environmental matters and employees.

The Company is not entitled to recover any amount under the warranties contained in the Warranty and Indemnity Deed unless and until all claims thereunder exceed £120,000 in aggregate, in which case the Warrantors, will be liable for the whole amount and not merely the excess. The maximum aggregate liability of the Warrantors under the warranties (subject to certain limited exceptions) is limited to £1,500,000.

Pursuant to the terms of the Warranty and Indemnity Deed, and as set out in full in the Offer Document, there will be a cash escrow account from which the Company shall be entitled in certain circumstances, to make withdrawals. In addition, the Consideration Shares issued to the Accepting Shareholders will be subject to escrow arrangements as referred to in paragraph 8 below.

All warranty claims under the Warranty and Indemnity Deed are subject to certain time and other limitations.

The Warrantors and their spouses or partners, and children under the age of 18 or any company or corporate entity (or partnership) in which the Warrantor is interested by virtue of a shareholding, directorship, partnership interest or otherwise, have agreed that for a period of three years following Completion, they will not engage or enter into any business which competes with the business of Isotek or of any company in Isotek's group anywhere in the world, and have also agreed that they will be restricted from soliciting and employing certain directors, officers and employees of Isotek.

8. Share Escrow

In accepting the Offer, Accepting Shareholders agree that their Consideration Shares are subject to escrow arrangements in the event of any shortfall in the working capital, increase in net debt or any claims under the acquisitions documents. In such event, Filtronic shall have the right to sell such number of Escrow Shares for which the aggregate Realised Value is equal (as closely as practicable without involving sales of fractions of such shares) to that Accepting Shareholder's Relevant Accepting Proportion of any applicable liability.

Following the expiry of six months from Completion, 50 per cent. of such Escrow Shares (assuming no working capital or net debt adjustments or claims under the Acquisition documents) will be released from these arrangements; and the remaining Escrow Shares (assuming no claims under the Acquisition documents) will be released from these arrangements following the expiry of 24 months from Completion.

In accepting the Offer, Accepting Shareholders have agreed not to transfer or otherwise dispose of any Escrow Shares during the relevant escrow period and have agreed to surrender their share certificates to Filtronic until the expiry of the relevant period.

9. Lock-in and orderly market

In addition to the share escrow arrangement referred to in paragraph 8 above, certain of the Isotek Shareholders (holding in aggregate approximately 31.4 per cent. of Isotek's fully diluted share capital) have agreed that they shall not without the prior written consent of the Company transfer or otherwise dispose of any of the Consideration Shares or any shares derived from such shares during the first 12 months following

Completion and for a further 12 months thereafter shall not transfer or dispose of such shares otherwise than with the Company's prior written consent and through such broker as shall be nominated by the Company.

In addition, certain of Isotek's key employees (holding in aggregate approximately 32.6 per cent. of Isotek's fully diluted share capital) have agreed, pursuant to the terms of new service agreements which were entered into on 30 July 2010, that they shall not, for a period of two years following Completion, transfer or otherwise dispose of any of the Consideration Shares or any shares derived from such Consideration Shares (except in respect of any transfer or disposal after the twelve months following Completion, where the Company gives its prior written consent).

10. Break fees

The Warranty and Indemnity Deed contains a break fee in the amount of the lower of either £1,000,000, or all fees, costs, charges, and expenses reasonably and properly incurred by the Company in connection with the Offer, which shall be payable by Isotek to the Company in the event of certain occurrences pursuant to the Warranty and Indemnity Deed. In certain circumstances, the Company shall be liable to pay to Isotek a break fee in the amount of the lower of 1 per cent. of the market capitalisation of the Company as at 30 July 2010 or all fees, costs, charges, and expenses reasonably and properly incurred by Isotek in connection with the Offer.

PART V – OPERATING AND FINANCIAL REVIEW OF FILTRONIC

The following is a discussion of the results of operations and financial condition of the Group as of and for the period ended 31 May 2010. Prospective investors should read this discussion in conjunction with the section of this Prospectus entitled “Selected financial information on Filtronic” and the consolidated financial statements of the Group. See also “Presentation of financial information” in the section entitled “Important Information”.

The presentation in this section contains forward-looking statements that involve risks, uncertainties and assumptions. The Group’s actual results may differ materially from those anticipated in these forward-looking statements as a result of factors including, but not limited to, those in the section of this Prospectus entitled “Risk Factors” and in “Cautionary note regarding forward-looking statements”, in the section entitled “Important Information”.

Introduction

1. Financial Information

The financial information in this Part V – “Operating and Financial Review relating to Filtronic” has been extracted without material adjustment from Filtronic’s Financial Information for the year ended 31 May 2010, as set out in Part VI – “Financial Information on Filtronic”, together with the Annual Report and Financial Statements of the Company for the years ended 31 May 2010, 31 May 2009 and 31 May 2008.

The Annual Report and Financial Statements, including audited consolidated financial statements (including their respective audit reports) of the Company for the financial periods ended 31 May 2010, 31 May 2009 and 31 May 2008 are incorporated into this document by reference. These documents are available from the Company’s registered office at Unit 2, Acorn Park, Charlestown, Shipley, West Yorkshire BD17 7SW, United Kingdom.

The following pages are incorporated by reference from the Annual Report and Financial Statements for the year ended 31 May 2010: the Chairman’s Statement on page 2; the Chief Executive’s Review on page 3; the Business Review on pages 3 to 5; the Directors’ Remuneration Report on pages 15 to 19; the Statement of Directors’ Responsibilities on page 20; the Independent Auditors’ Report on pages 21 to 22; the Consolidated Income Statement on page 23; the Consolidated Balance Sheet on page 25; the Consolidated Cash Flow Statement on page 27; the Consolidated Statement of Comprehensive Income on page 24; the Notes to Consolidated Financial Statements on page 32 to 64; the Company Balance Sheet on page 29; and the Notes to the Company Balance Sheet on pages 51 and 53 to 56.

The following pages are incorporated by reference from the Annual Report and Financial Statements for the year ended 31 May 2009: the Chairman’s Statement on page 2; the Chief Executive’s Review on page 3; the Business Review on pages 3 to 6; the Directors’ Remuneration Report on pages 17 to 22; the Statement of Directors’ Responsibilities on page 23; the Independent Auditors’ Report on page 24; the Consolidated Income Statement on page 26; the Consolidated Balance Sheet on page 28; the Consolidated Cash Flow Statements on page 29; the Consolidated Statement of Recognised Income and Expense on page 27; the Notes to the Accounts on pages 34 to 82; the Company Balance Sheet on page 32; and the Notes to the Company Balance Sheet on pages 62 to 66 and pages 68 to 73.

The following pages are incorporated by reference from the Annual Report and Financial Statements for the year ended 31 May 2008: the Chairman’s Statement on page 2; the Chief Executive’s Statement on pages 3 to 4; the Business Review on pages 3 to 8; the Directors’ Remuneration Report on pages 19 to 25; the Statement of Directors’ Responsibilities on page 26; the Independent Auditors’ Report on pages 27 to 28; the Consolidated Income Statement on page 29; the Consolidated Balance Sheet on page 31; the Consolidated Cash Flow Statement on pages 32 to 33; the Consolidated Statement of Recognised Income and Expense on page 30; the Notes to the Accounts on pages 38 to 90; the Company Balance Sheet on page 35; and the Notes to the Company Balance Sheet on pages 71 to 73, page 75, pages 77 to 80 and pages 82 to 83.

A full list of documents incorporated by reference is in the “Cross-reference list” on page 46 of this document.

Investors should read the whole of this document and use the documents cited above for reference and should not just rely on the summary information contained in this Part V – “Operating and Financial Review relating to Filtronic”. The documents included by reference contain an extensive review of the financial periods in question on both an operating and a financial level.

The principal risks and uncertainties facing the Group’s business are discussed in the “Risk Factors” section of this document on pages 11 to 15, including economic, fiscal or monetary factors which could materially affect the Company’s results of operations, financial condition, business or prospects.

2. Selected Consolidated Financial Information on Filtronic

The data set out below has been extracted without material adjustment from, and should be read together with Filtronic’s Financial Information for the year ended 31 May 2010, as set out in Part VI – “Financial Information on Filtronic”, together with the Company’s audited consolidated financial statements, for the years ended 31 May 2009 and 31 May 2008. The Financial Information was prepared in accordance with IFRS, as adopted by the European Union.

Filtronic

<i>In £000’s for the year ended 31 May</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
<i>Income Statement Items</i>			
Revenue	15,575	28,779	40,133
Op. (loss)/profit before exceptionals from continuing ops	(292)	2,080	2,522
Exceptional items	(842)	(937)	(26,029)
(Loss)/Profit before taxation	(1,021)	2,266	(16,200)
(Loss)/Profit from continuing operations	(1,021)	2,266	(16,200)
<i>Balance Sheet Items</i>			
Total Assets	23,602	27,524	54,740
Total Liabilities	3,717	5,948	15,827
Net Assets	19,885	21,576	38,913

3. Overview of the Filtronic business

Filtronic, prior to the Acquisition, comprises solely the point-to-point business which designs and manufactures customised microwave electronic sub assembly components that are integrated by OEM’s into point-to-point radios. These radios provide the backhaul links for telecom networks, particularly the mobile base station market. Filtronic is a leading merchant supplier of transceiver modules and waveguide diplex filters to this market.

For the financial year 2010, Filtronic reported total revenue from continuing operations of £15.6 million.

4. Principal Factors Affecting Filtronic’s Results of Operations

Acquisitions and disposals

In the years prior to the review period, management’s strategy had involved a restructuring and refocusing of the business. During the period there were two major divestments during FY08 as described below:

In March 2008, Filtronic disposed of its Compound Semiconductor business to RF Micro Devices Inc. for a consideration of £12.5 million. Filtronic Compound Semiconductors Limited carried out Filtronic’s business in Compound Semiconductors through its fabrication facility at Newton Aycliffe in the UK. The gross value of its assets were £23.5 million as at 31 May 2007 with underlying losses before exceptional items attributable to the assets for the year ended 31 May 2007 of £1.5 million and a headline loss including exceptional items of £29.0 million.

In August 2008, Filtronic disposed of its Defence business to Teledyne Technologies Incorporated for a consideration of £13 million (on a cash free debt free basis). Filtronic's Defence Electronics business designed and manufactured customised radio frequency, microwave and millimetre wave components and subsystems for the global defence industry and had operations in the United Kingdom and Australia. In the twelve months ended 31 May 2008, the business generated £14.5 million of revenue and £1.3 million of operating profit. As at 31 May 2008, Filtronic's Defence Electronics business had gross assets of £7.4 million.

Cyclicality of underlying markets that OEM customers supply

The point-to-point business does not experience significant seasonal cyclicality. However some of the underlying markets which its OEM customers supply are sensitive to the availability of capital.

In particular, developing world markets have tended to be highly dependent upon the availability of debt to fund the infrastructure investment which drives the demand for the P2P businesses customer's radio units.

Following the 2008 unrest in the capital markets, demand from India in particular collapsed as operators were unable to access debt to fund network growth and this led to the significant reduction in Filtronic's revenue from FY08's £40 million to FY09's £29 million and FY10's £16 million. This revenue reduction was typical of the market and was mirrored by broadly similar revenue falls for Filtronic competitors such as Endwave and MTI.

Significant competition

Filtronic competes with other merchant suppliers to the point-to-point microwave components market including Endwave (Nasdaq: ENWV, market cap US\$21.1 million) and a division of Microelectronics Technology ("MTI", Taiwan:2314, market cap US\$251.2 million). By late 2007, Filtronic had overtaken these more established module vendors to become the leading supplier by revenue and has maintained this position since that time. Filtronic products also compete with the internal groups within certain of the large OEMs who choose to build their own modules for inclusion within their radio units or buy in fully integrated radio units. This integrated approach represents over 60 per cent. of the market which is not addressable for Filtronic's modules.

More recently, competition has increased from microwave semiconductor suppliers seeking to supply chips to OEMs. Filtronic's new multi chip package aims to compete with such suppliers in a lower value but potentially higher volume market, and has already been instrumental in securing next generation platform business with two OEMs, including the new OEM customer announced in January 2010. Sales to this customer are expected to commence in H2 FY11.

The gigabit radio sector is at an early stage of development but a number of US venture backed start ups are providing product in small volumes.

Reliance on key customers

Filtronic supplies a niche range of products to a small number of large OEM customers. Following falls in Asian demand a major OEM has become less of a key customer. Growth in demand from another OEM has substituted to a certain extent and this will be assisted by the addition in 2011 of revenue from the new OEM (announced December 2009), as well as SELEX volume.

5. Results of Operations

Filtronic

<i>In £000's for the year ended 31 May</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
<i>Income Statement Items</i>			
Revenue	15,575	28,779	40,133
Op. (loss)/profit before exceptionals			
from continuing ops	(292)	2,080	2,522
Exceptional items	(842)	(937)	(26,029)
(Loss)/Profit before taxation	(1,021)	2,266	(16,200)
(Loss)/Profit from continuing operations	(1,021)	2,266	(16,200)

Financial year 2010 (“FY10”) compared with financial year 2009 (“FY09”)

Sales in FY10 were 46 per cent. down on FY09. Following revenue for the first half of FY09 of £18.3 million, market demand weakened in late 2008 due to general destocking and one customer who experienced a significant downturn in sales in Asia resulting in £10.5 million total revenue for the second half of FY09. The first half of FY10 (£9.6 million) saw a continued low ebb in telecoms infrastructure spend, before customer inventory overhang cut FY10’s second half revenue to £6.0 million.

Transceiver modules sold fell 46 per cent. in FY10 from FY09, and prices also fell with the average sales price reducing by 3.6 per cent.

Staff costs were reduced in response to this reduction in demand. As a result FY10’s staff costs (excluding exceptionals) of £4.8 million were £1.6 million lower than FY09 following two rounds of redundancies which reduced the year’s average number of employees by 50 to 149 (139 at 31 May 2010 and 152 at 31 May 2009).

The group continued to invest in future product development and research and development costs (including staff costs) were up £0.5 million versus FY09 at £2.3 million, although this was offset by £0.5 million of other operating income from a Yorkshire forward grant given to support the development of a new product to target the emerging market for 4G mobile broadband services.

Exceptional costs for FY10 of £0.8 million were £0.1 million lower than the prior year due to reduced director resignation costs (down £237,000 to £146,000), reduced pension closure costs (down £150,000) offset by additional acquisition related costs of £320,000.

The operating loss of £1.1 million was £2.3 million worse than the prior year due to the revenue reduction being only partially offset by cost reductions.

FY10 finance income of £0.1 million was much lower than FY09’s £1.3 million due to the FY09 special dividend of £29.7 million, significantly reducing FY10 cash deposits.

Financial year 2009 compared with financial year 2008 (“FY08”)

Continuing business sales in FY09 were down 28 per cent. versus FY08 due to a late 2008 weakening in demand due to destocking and one customer’s significant downturn in Asian sales. This comparison is based on data related to the 31 May 2009 continuing point-to-point business and excludes FY08 revenue of £14.5 million related to the Defence Electronics business disposed during that period.

Transceiver modules sold fell 27 per cent. in FY09 from FY08, but product mix changes maintained average transceiver prices at their prior year level.

The FY09 downturn in demand initiated prompt overhead and other cost reduction measures which included a reduction from 227 staff in continuing operations at 31 May 2008 to 152 a year later.

Continuing Business operating profit pre exceptionals for FY09 of £2.1 million was 18 per cent. down versus FY08 due to the loss of revenue offset by cost reductions.

FY09 included exceptional costs of £0.9 million with £0.6 million being resignation/termination related and £0.3 million pertaining to the closure of the defined benefit pension scheme. In FY08 the exceptional costs of £26.0 million were wholly related to the pension scheme settlement/closure.

FY09 finance income of £1.3 million was much lower than FY08’s £9.1 million due to the FY08 special dividend of £89.2 million followed by the FY09 special dividend of £29.7 million, significantly reducing cash deposits.

FY09 group profit of £11.7 million (2008 £14.6 million loss) reflected £9.4 million of discontinued activity gains. The 15 August 2008 disposal of the UK and Australian Defence Electronics business gave a £8.4 million gain, which was partially offset by a £0.2 million operating loss (2008 £0.3 million operating profit) for the pre disposal period. The Australian Wireless Infrastructure business was sold in 2005 but under the terms of that sale a proportion of sell-on proceeds (£1.3 million net of tax) became receivable in July 2008.

Financial year 2008 compared with financial year 2007 (“FY07”)

FY08 revenues included £40.1 million of continuing point-to-point sales which were 79 per cent. up on the FY07 point-to-point sales of £22.4 million. Full FY08 sales (including Defence Electronics) of £54.7 million were 42 per cent. up on FY07 (£38.4 million) with point-to-point sales accounting for the majority of the increase.

Point-to-point sales grew following the development and qualification of additional products and a significant increase in Asian demand with India in particular showing strong FY08 demand growth versus FY07 for one major customer. Transceiver modules sold increased 112 per cent. in FY08 from FY07, whilst product and customer mix held average prices steady.

Defence sales fell 10 per cent. year on year to £14.5 million due to weaker order intake, largely as a result of customers facing delays to major projects.

Operating profit pre exceptionals rose from FY07’s £1.9 million loss to FY08’s £3.9 million gain due to a £4.0 million increase in point-to-point contribution (driven by turnover increase), coupled with a £1.9 million reduction in central services costs to £3.3 million. Defence operating profit rose to £1.3 million from £1.1 million (FY07), with efficiencies achieved cancelling out the impact of the reduced sales.

Exceptional costs in FY08 of £26.0 million related to the closure of the defined benefit pension scheme. In 2007 there was an exceptional credit of £7.7 million which was also related to the pension scheme.

During FY08 the US Defence business and the Compound Semiconductor business were sold as well as properties at Saltaire and Stewarton. In October 2006 the Wireless Infrastructure business was sold for \$185m cash plus 17.7m Powerwave Technologies inc shares. These disposals generated cash which helped to increase FY08 net finance income to £7.4 million (2007 £1.4 million).

Loss from continuing activities for FY08 of £16.2 million was down on FY07’s £1.8 million loss primarily due to the pension related exceptionals.

6. Balance Sheet Review

Filtronic

<i>In £000’s for the year ended 31 May</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Total Assets	23,602	27,524	54,740
Total Liabilities	3,717	5,948	15,827
Net Assets	19,885	21,576	38,913

Financial year 2010 compared with financial year 2009

Fixed assets remained unchanged at £2.0 million with capital expenditure of £0.6 million matched by depreciation.

At 31 May 2010 net working capital was £2.5 million (2009 £5.3 million). The 53 per cent. reduction was broadly in line with revenue. Inventories were reduced by 56 per cent. year on year as lower levels of product and raw materials were held to match the lower turnover levels. Trade and other receivables were reduced by 30 per cent. again reflecting a lower level of trade. Trade and other payables fell by a similar 28 per cent. and a warranty provision of £0.7 million was 46 per cent. down; again in line with turnover. Receivables/payables experienced smaller year on year reductions as a significant part of the turnover related reduction was already in the 31 May 2009 data.

The business’ focus on working capital enabled the cash to be maintained at £16.2 million.

Financial year 2009 compared with financial year 2008

Fixed assets fell from £4.0 million to £2.0 million as a result of the disposal of the Defence Electronics business. All land and buildings were sold (£1.2 million net book value at 31 May 2008) as well as £0.9 million net book value of plant and equipment.

Net working capital at 31 May 2009 was £5.3 million (2008 £6.6 million). The 19 per cent. reduction included the impact of the disposal of the Defence Electronics business and the reduction in turnover levels in the remaining point-to-point business. Net working capital comprised inventories of £4.5 million (down 27 per cent.), receivables of £4.8 million (down 63 per cent.) and payables of £4.0 million (down 68 per cent.). The receivables and payables experienced higher reductions as the impact of reduced point-to-point sales had worked through whereas the main benefits on inventory were not delivered until the following year.

Cash balances fell from £31.5 million to £16.2 million with a £29.7 million special dividend outflow being partially only offset by £13.4 million of disposal receipts.

Financial year 2008 compared with financial year 2007

Fixed assets fell from £26.1 million to £4.0 million as a result of the disposal in FY08 of the Compound Semiconductor business (£8.6 million), the Defence Electronics business (£1.1 million), property disposals (£6.2 million) and Compound Semiconductor impairment (£6.3 million).

Reported net working capital at 31 May 2008 was £6.6 million (2007 £2.9 million). The 100 per cent. increase included the impact removing £5.8 million of product liability provisions included in 2007 but excluding the 2008 provision from working capital. Adjusting for this the working capital fell 27 per cent. year on year.

Net working capital comprised inventories of £6.2 million (down 41 per cent.), receivables of £13.0 million (down 20 per cent.) and payables of £12.7 million (down 47 per cent. but down 30 per cent. on a like for like basis).

Cash balances fell from £118.3 million to £31.5 million with a £89.2 million special dividend outflow explaining the reduction. Sales proceeds of £13.5 million and net interest income of £6.7 million added to cash from operations of were largely negated by a net operational cash outflow including a pension scheme closure payment of £27.7 million.

7. Liquidity and Capital Resources

Filtronic

<i>In £000's for the year ended 31 May</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Cash from Operations	1,926	709	(16,072)
Cash from Investments	(1,161)	13,686	17,922
Cash from Financing	(743)	(29,729)	(89,188)
Net Change in Cash	22	(15,334)	(87,338)

Financial year 2010 compared with financial year 2009

Although a £1.1 million operating loss (FY09 £1.1 million profit) was made, net cash from operating activities actually rose by £1.2 million to £1.9 million in FY10 due to net working capital cash inflows.

Working capital reductions generated a £2.8 million inflow (FY09 £0.9 million outflow) as reductions were made in line with falling revenue.

However, cash balances were unchanged at £16.2 million with £0.6 million capex (FY09 £0.9 million), a £0.7 million dividend payment (FY09 £29.7 million special dividend following disposals) and £0.6 million of tax (FY09 £nil) cancelling the operational inflow.

Financial year 2009 compared with financial year 2008

The FY09 operating profit of £0.9 million was down £0.6 million versus the prior year excluding the FY08 defined benefit pension charge of £27.0 million. Working capital outflows cut operating cash inflow to £0.7 million whereas FY08 had £27.7 million of pension payments which, whilst partially offset by £8.3 million of impairment/depreciation adjustments, still resulted in a £16.1 million operational cash outflow.

FY09 cash balances fell from £31.5 million in FY08 to £16.2 million with a £29.7 million special dividend outflow being only partially offset by £13.4 million of disposal receipts.

FY08 cash balances fell from £118.3 million to £31.5 million with a £89.2 million special dividend outflow being the principal factor.

Financial year 2008 compared with financial year 2007

The FY08 operating loss of £25.5 million was £4.7 million lower than that for FY07.

FY08 benefitted from non cash depreciation/impairment adjustments of £8.3 million (FY07 £28.4 million) to reduce operational cash outflows to £16.1 million. The FY07 outflow of £10.6 million also included £13.3 million of pension payments, and £7.3 million of fixed asset disposal proceeds.

FY08 cash balances fell from £118.3 million to £31.5 million with a £89.2 million special dividend outflow explaining the reduction. Sales proceeds of £13.5 million and net interest income of £6.7 million cancelled out the operating cash outflow.

FY07 cash balances rose from £5.3 million to £118.3 million with business disposal proceeds of £161.7 million being principally used to cover operational outflows, capex of £16.6 million and the repayment of £18 million of debt.

Capital Resources

Share capital remained unchanged from 31 May 2007 to 31 May 2010 but in FY07 the share premium (£139.3 million) and capital redemption (£0.1 million) reserves were cancelled by special resolution with the capital reduction being confirmed by the High court of England and Wales on 18 April 2008.

Following the repayment of £18 million of debt in FY07 the group has since held substantial cash balances. Neither the Group nor the Company has had debt or undrawn debt facilities during the past 3 financial years or during the period from 31 May 2010 to the date of this document.

Capital expenditure and investments

There are no material additions to fixed assets planned for the period from 31 May 2010 to expected Completion which are outwith the normal level of capital expenditure witnessed in the past 2 years.

FY10 capital expenditure of £0.6 million all related to the point-to-point business, whereas FY09's £0.9 million included £0.1 million on discontinued activities.

FY08 spend was £2.3 million including £1.9 million on the continuing activities of the point-to-point and defence electronics businesses. FY07 included £1.0 million for these continuing activities as well as £15.6 million related to discontinued (principally Compound Semiconductors) activities.

This capital expenditure has been financed through internal cash flow.

Contractual obligations and commercial commitments

Capital expenditure in the point-to-point business has typically related to improvements to production capabilities and pertains to a significant number of small to medium sized projects rather than one large one. As a consequence of this, year end capital commitments have not been significant (FY10-07, £0.2 million, £0.1 million, £0.3 million, £0.2 million).

Current financial year capital expenditure plans are broadly similar to those of FY10 (£0.6 million) and as such do not include significant contractual commitments.

Purchases of parts and materials are generally made to complete orders with no take or pay contracts.

Quantitative and qualitative discussion of market risk

Interest rate risk

Cash is held on short term bank deposits which earn interest at variable money market deposit rates. At 31 May 2010 £10,190,000 was held in Barclays on short term deposit with an interest rate of 0.7 per cent. and £1,055,000 at lower rates and £5,000,000 was held in Santander on short term deposit with an interest rate of 1.25 per cent. Sterling interest rates are very low and therefore interest rate risk is considered to be low.

Foreign currency risk

The Group's and Company's reporting currency is sterling, which is also the Company's functional currency.

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

A small proportion of continuing revenues are denominated in euros. A surplus of euros has been generated over the last two financial years, however, a natural hedge is now in place with euro sales matching euro purchases. It is expected that the group will generate a surplus of US dollars in the foreseeable future. The nature of the group's businesses means that there is limited visibility of future revenues in euros and 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 2010 there were no outstanding forward foreign exchange contracts.

Nearly all cash is held in sterling.

8. Capitalisation and Indebtedness

Statement of capitalisation

The table below sets out the Group's total capitalisation as at 31 May 2010, extracted without material adjustment from the Company's audited statutory accounts for the year to 31 May 2010 (which are incorporated by reference into this document). This table should be read together with the financial statements and the notes to those financial statements incorporated by reference in this document.

	<i>As at 31 May 2010</i>
<i>Shareholders equity</i>	<i>£'000</i>
Share capital	7,432
Share premium	—
Other reserves	—
	<hr/>
	7,432
	<hr/>

There has been no material change to the capitalisation of the Group since 31 May 2010.

Statement of indebtedness

The tables below set out the gross indebtedness and net indebtedness of Filtronic plc, extracted without material adjustment from Filtronic's unaudited accounting records, as at 31 August 2010.

	<i>As at 31 August 2010</i> <i>£'000</i>
<i>Gross indebtedness</i>	
<i>Total current debt</i>	
Secured	nil
	<hr/>
	nil
<i>Total non-current debt</i>	
Secured	nil
Unsecured	nil
	<hr/>
	nil
	<hr/>
Total Indebtedness at 31 August 2010	nil
	<hr/>
	<i>As at 31 August 2010</i> <i>£'000</i>
<i>Net indebtedness</i>	
Cash	15,066
	<hr/>
Current portion of secured banks loans	nil
Current portion of finance leases	nil
	<hr/>
	15,066
	<hr/>
Non current secured bank loans	nil
Non current finance leases	nil
Shares classified as liabilities	nil
	<hr/>
	nil
	<hr/>
Net financial indebtedness	nil
	<hr/>
Contingent liabilities in respect of:	
Bank guarantees	nil
	<hr/>
	nil
	<hr/>

The Group had no committed or uncommitted bank facilities as at 31 August 2010.

As at 31 August 2010 the Group had no debt, whether current or non current, guaranteed or unguaranteed, secured or unsecured.

As at 31 August 2010 the Group had cash deposits of £15.066 million.

9. Contingent Liabilities

No material contingent liabilities were disclosed at any of the balance sheet dates under review.

10. Dividend

It is the Board's intention to maintain an annual dividend subject to the Enlarged Group's financial results and condition, its cash requirements, future prospects, profits legally available for distribution and other factors deemed by the Board to be relevant at the time.

An annual dividend of 1.00p per share (£0.7 million) in respect of FY10 will be paid on 5 November 2010 to the shareholders on the register at the close of business on 8 October 2010. An annual dividend of 1.00p per share (£0.7 million) for FY09 was paid in November 2009.

In line with the Board's intention of returning disposal proceeds to shareholders, a special dividend of 40.00p per share (£29.7 million) was paid in November 2008.

A special dividend of 120.00p per share (£89.2 million) was paid in May 2008.

PART VI – FINANCIAL INFORMATION ON FILTRONIC

Financial Information on Filtronic for the Years Ended 31 May 2010, 31 May 2009 and 31 May 2008

The consolidated financial statements of the Company and its subsidiaries included in the Annual Report and Financial Statements of the Company for the years ended 31 May 2010, 31 May 2009 and 31 May 2008 are incorporated by reference into this document.

KPMG Audit Plc of 8 Salisbury Square, London EC4Y 3BB has issued unqualified audit opinions on the consolidated financial statements of the Company and its subsidiaries for each of the financial periods ended 31 May 2010, 31 May 2009 and 31 May 2008. The audit opinion for the 12 month period ended 31 May 2010 is set out on page 21 of the Annual Report and Financial Statements of the Company for the year ended 31 May 2010. The audit opinion for the 12 month period ended 31 May 2009 is set out on page 24 of the Annual Report and Financial Statements of the Company for the year ended 31 May 2009. The audit opinion for the 12 month period ended 31 May 2008 is set out on page 27 of the Annual Report and Financial Statements of the Company for the year ended 31 May 2008.

Cross-reference list

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document.

(A) *Financial statements for FY08 and audit report thereon*

The page numbers below refer to the relevant pages of Filtronic's Annual Report FY08:

- auditor's report – pages 27 and 28;
- income statement – page 29;
- statement of recognised income and expenses – page 30;
- balance sheet – page 31;
- cash flow statement – pages 32 and 33;
- accounting policies – pages 38 to 42;
- notes to financial statements – pages 38 to 90;
- parent company balance sheet – page 35;
- statements of equity changes – page 83;
- note on related party transactions; – page 62; and
- notes to the separate financial statements – NA.

(B) *Financial statements for FY09 and audit report thereon*

The page numbers below refer to the relevant pages of Filtronic's Annual Report FY09:

- auditor's report – pages 24 and 25;
- income statement – page 26;
- statement of recognised income and expenses – page 27;
- balance sheet – page 28;
- cash flow statement – page 29;
- accounting policies – pages 34 to 38;

- notes to financial statements – pages 34 to 82;
- parent company balance sheet – page 32;
- statements of equity changes – page 73;
- note on related party transactions – page 54; and
- notes to the separate financial statements – NA.

(C) Financial statements for FY10 and audit report thereon

The page numbers below refer to the relevant pages of Filtronic's Annual Report FY10:

- auditor's report – pages 21 to 22;
- income statement – page 23;
- statement of comprehensive income – page 24;
- balance sheet – page 25;
- cash flow statement – page 27;
- accounting policies – pages 32 to 36;
- notes to financial statements – pages 32 to 64;
- parent company balance sheet – page 29;
- statements of equity changes – page 26;
- note on related party transactions – page 46; and
- notes to the separate financial statements – NA.

PART VII – FINANCIAL INFORMATION ON ISOTEK



KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

The Directors
Filtronic plc
Unit 2, Acorn Park
Charlestown
Shipley
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28 October 2010

Dear Sirs

Isotek (Holdings) Limited

We report on the financial information set out on pages 50 to 72. This financial information has been prepared for inclusion in the Prospectus relating to the acquisition of Isotek (Holdings) Limited dated 28 October 2010 by Filtronic plc on the basis of the accounting policies set out in note 1.

Responsibilities

The Directors of Filtronic plc are responsible for preparing the financial information on the basis of preparation set out in note 1.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus dated 28 October 2010, a true and fair view of the state of affairs of Isotek (Holdings) Limited as at the dates stated and of its losses, cash flows, comprehensive income and changes in parent company net investment for the periods then ended in accordance with the basis of preparation set out in note 1.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit Plc
Chartered Accountants

Income statement*for the year ended 31 May 2010*

		2010 £	2009 £	2008 £
	<i>Note</i>			
Revenue	3	789,193	433,330	124,100
Cost of sales		(436,684)	(102,000)	(62,000)
Gross profit		352,509	331,300	62,100
Administrative expenses				
Before goodwill impairment		(2,226,731)	(1,606,868)	(963,290)
Goodwill impairment		–	(181,161)	–
Administrative expenses		(2,226,731)	(1,788,029)	(963,290)
Operating loss	4	(1,874,222)	(1,456,729)	(901,190)
Finance income	7	–	12,427	10,032
Finance costs	8	(30,597)	(1,512)	–
Loss before taxation		(1,904,819)	(1,445,814)	(891,158)
Taxation	9	209,789	190,142	174,572
Loss for the financial year		(1,695,030)	(1,255,672)	(716,586)

Statement of comprehensive income*for the year ended 31 May 2010*

	2010 £	2009 £	2008 £
Loss for the financial year	(1,695,030)	(1,255,672)	(716,586)
Currency translation movement arising on consolidation	(129,286)	—	—
Total comprehensive income for the period	<u>(1,824,316)</u>	<u>(1,255,672)</u>	<u>(716,586)</u>

Statement of changes in parent company net investment

for the year ended 31 May 2010

	2010	2009	2008
	£	£	£
Opening parent company net investment	303,016	664,963	773,180
Total comprehensive income for the period	(1,824,316)	(1,255,672)	(716,586)
New ordinary shares issued	430,000	–	200,000
Quasi-equity funding by Oil & Gas division (see note 1)	785,783	893,725	408,369
Closing parent company net investment	<u>(305,517)</u>	<u>303,016</u>	<u>664,963</u>

Balance sheet*As at 31 May 2010*

	<i>Note</i>	<i>2010</i> £	<i>2009</i> £	<i>2008</i> £
Non current assets				
Property, plant and equipment	11	96,280	84,394	84,688
Intangible assets	12	—	—	—
		<u>96,280</u>	<u>84,394</u>	<u>84,688</u>
Current assets				
Inventories	13	22,209	6,500	—
Trade and other receivables	14	378,456	266,026	209,459
Cash and cash equivalents		260,307	214,186	385,252
		<u>660,972</u>	<u>486,712</u>	<u>594,711</u>
Total assets		<u>757,252</u>	<u>571,106</u>	<u>679,399</u>
Current liabilities				
Trade and other payables	15	(931,308)	(150,790)	(14,436)
Interest bearing loans and borrowings	16	(131,461)	(117,300)	—
Total liabilities		<u>(1,062,769)</u>	<u>(268,090)</u>	<u>(14,436)</u>
Net (liabilities)/assets		<u>(305,517)</u>	<u>303,016</u>	<u>664,963</u>
Parent company net investment		<u>(305,517)</u>	<u>303,016</u>	<u>664,963</u>

Cash flow statement

for the year ended 31 May 2010

	<i>Note</i>	<i>2010</i> £	<i>2009</i> £	<i>2008</i> £
Cash flows from operating activities				
Loss before taxation		(1,904,819)	(1,445,814)	(891,158)
Finance costs		30,597	1,512	–
Finance income		–	(12,427)	(10,032)
Operating loss		(1,874,222)	(1,456,729)	(901,190)
Depreciation		61,284	34,383	25,076
Goodwill impairment		–	181,161	–
Movement in inventories		(15,709)	(6,500)	–
Movement in trade and other receivables		(89,969)	(13,518)	(87,724)
Movement in trade and other payables		395,980	56,774	9,900
Net income taxes received		109,791	72,269	–
Net cash from operating activities		(1,412,845)	(1,132,160)	(953,938)
Cash flows from investing activities				
Interest received		–	–	10,032
Acquisitions	19	–	(12,765)	–
Purchase of property, plant and equipment		(73,170)	(747)	(69,994)
Net cash inflow from parent company net investment		734,034	976,118	461,206
Cash flows from investing activities		660,864	962,606	401,244
Cash flows from financing activities				
Share issue		430,000	–	200,000
Interest paid		(6,814)	(1,512)	–
Financing received from O&G	15	374,916	–	–
Net cash used in financing activities		798,102	(1,512)	200,000
Increase/(decrease) in cash and cash equivalents		46,121	(171,066)	(352,694)
Opening cash and cash equivalents		214,186	385,252	737,946
Closing cash and cash equivalents		260,307	214,186	385,252

Notes

(forming part of the financial statements)

1. Accounting policies

During the three years ended 31 May 2010 the group headed by Isotek (Holdings) Limited (the ‘Group’) operated two distinct businesses – ‘wireless telecoms’ (“WT”) and ‘Oil & Gas’ (“O&G”). The principal subsidiaries within the Group are listed in note 20. Isotek Electronics Limited operated within both WT and O&G, though the assets, liabilities and income and expenses from the two businesses generally were distinguishable. All other Group companies operated solely within the WT business.

Isotek (Holdings) Limited has not previously prepared consolidated financial statements on the grounds of its size. This non-statutory Combined Financial Information, in respect of the proposed acquisition by Filtronic plc of the entire share capital of the Group headed by Isotek (Holdings) Limited, is the responsibility of the directors of Filtronic plc. On 31 March 2010 and prior to the proposed acquisition, the trade and assets of the O&G business within Isotek Electronics Limited were sold to Isotek Oil and Gas Limited at their book values (see note 15). It was agreed that an amount would also be payable by Isotek Electronics Limited to O&G for O&G to assume responsibility for certain potential tax exposures within Isotek Electronics Limited (see note 24). Accordingly and as further explained below, these non-statutory combined financial statements seek to reflect only the financial record of the WT business of Isotek (Holdings) Limited.

Basis of preparation of combined financial information

The combined financial information presents the financial record of the WT business of the Group for the three years ended 31 May 2010, being those businesses that will be held by Isotek (Holdings) Limited at the date of the proposed acquisition (including Isotek (Holdings) Limited).

For the purpose of the historical combined financial information, in order to present the historical results of the WT business, the various WT businesses have been aggregated (see below) to present them as a single group (referred to as the “Aggregated Group”). In preparing that aggregation transactions between entities that are included in the aggregation have been eliminated.

Amounts due by the Aggregated Group to / from the O&G business are included in trade debtors / creditors to the extent they are deemed recoverable/payable from/by O&G. As described below the full cash balances within the Group are included within the combined financial information. The net cash inflow resulting from O&G trading will be reflected in the cash balance. This quasi-equity funding by O&G does not have the characteristics of debt and is reflected in the movements within the parent company net investment.

Due to the exclusion of O&G from the Combined financial information, it is not meaningful to show share capital or an analysis of reserves for the Aggregated Group. The net assets of the Aggregated Group are represented by the cumulative investment within the companies within the Aggregated Group (“Parent company net investment”).

All of the companies within the Aggregated Group, with the exception of Isotek Inc, which was incorporated on 12 August 2008, have been in existence throughout the three years ended 31 May 2010 and are presented in the Aggregated Financial Information.

The combined financial information has been prepared in accordance with the requirements of the Prospectus Directive, the Listing Rules and in accordance with this basis of preparation. The basis of preparation describes how the combined financial information has been prepared in accordance with IFRS (except as disclosed below).

International Financial Reporting Standards (“IFRS”) as adopted by the EU do not provide for the preparation of Combined Financial Information or for the specific accounting treatments set out below, and accordingly in preparing the Combined Financial Information certain accounting conventions commonly used for the preparation of historical financial information for inclusion in an investment circular as described in the Annexure to SIR 2000 (Investment Reporting Standard applicable to public reporting engagements on historical financial information), issued by the UK Auditing Practices Board, have been

applied. The application of these conventions results in the following material departures from IFRS. In other respects IFRS as adopted by the EU has been applied.

- As explained above, the Combined Financial Information is prepared on a combined basis and therefore does not comply with the requirements of IAS 27 'Consolidated and Separate Financial Statements'. The financial information has therefore been prepared on a combined basis by applying the principles underlying the consolidation principles of IAS 27.
- The combined financial information has not included the disclosure requirements prescribed by IFRS 2 'Share Based Payments'. Details of the share options in existence are provided in note 10, which resulted in no charge in the three years ended 31 May 2010.

Basis of accounting

The accounting policies adopted by the Aggregated Group in the preparation of the combined financial information are consistent with the accounting policies that will be applied by prospective acquirer, Filtronic plc, in its next set of financial statements, being its financial statements for the year ended 31 May 2011.

These pronouncements either had no material impact on the combined financial information or resulted in changes to presentation and disclosure only.

The following summarises the accounting and other principles applied in preparing the Combined Financial Information:

- The assets, liabilities, income and expenses, and cash flows of the WT businesses of the individual entities have been aggregated;
- Transactions and balances between entities included within the Combined Financial Information have been eliminated.
- Subsidiary undertakings acquired by the Aggregated Group during the period presented have been included in the Combined Financial Information from and up to the date control was passed.
- All cash and other movements in capital amounts, for example shares issued, in respect of Isotek (Holdings) Limited's subsidiaries have been reflected in the cash flow and as movements in the parent company net investment.
- The Aggregated Group has historically operated a central cash account, which has been used for both the WT and O&G businesses. For the purposes of preparation of the Combined Financial Information, the full cash balance at each reporting date is included as this bank account will remain within the Aggregated Group to be acquired following the disposal of the O&G business (see note 15). The movements in the cash balance that relate to O&G will be reflected within movements in the parent company net investment as these transactions do not have the characteristics of debt. This quasi-equity funding by O&G is reflected in the movements in the parent company net investment.
- Any funding of companies in the Aggregated Group by Isotek (Holdings) Limited during the period of the Combined Financial Information which comprises equity holdings and quasi-equity funding has been treated as part of the parent company net investment. All changes in such funding are shown as movements in the parent company net investment.
- The tax credits within the combined financial information represent the tax receivable arising from losses created from research and development (R&D) expenditure that would have been available to the Aggregated Group if it were a standalone entity. It has been assumed that the full losses of WT for each period, to the extent they relate to enhanced R&D expenditure, have been surrendered in return for a cash payment at the applicable percentage rate applied to the enhanced R&D expenditure. The residual losses were used to offset the taxable profits of the O&G division and as such the tax credits will not be representative of the tax credits recorded by in the financial statements of Isotek Electronics Limited. No asset has been recognised for these tax losses used by O&G as these are not considered recoverable from O&G. The R&D credits are only available to the extent that the WT

division is loss making. The tax credits in the combined financial information are therefore not necessarily representative of the tax credits that may arise in the future.

Accounting convention and basis of combination

The Combined Financial Information has been prepared in sterling which is determined as the functional currency of the Aggregated Group.

The combined financial information has been prepared on a going concern basis, notwithstanding the net liabilities at 31 May 2010, and trading losses in each of the three years ended 31 May 2010, which the directors believe to be appropriate for the following reasons.

Throughout the three years ended 31 May 2010 the wireless infrastructure division has been partially funded by the profitable Oil & Gas division. Following the sale of the Oil & Gas division on 31 March 2010 the wireless infrastructure division has been provided with short-term interest free funding by the Oil & Gas division. Refer to note 15 for further details.

Additionally, in June 2010 the Aggregated Group agreed with HM Revenue and Customs to defer £120,905 of pay as you earn balances. Repayments commenced in July 2010. To date the Aggregated Group has complied fully with all repayments in respect of this agreement. The R&D tax credit receivable is expected to part extinguish this liability.

Subsequent to 31 May 2010 additional debt funding of £1.4 million has been received. Further details are provided in note 24.

The Aggregated Group currently have no overdraft facility. Key management have commenced discussions with its bankers about setting up additional facilities but these discussions are ongoing.

The directors' consider that the outlook presents significant challenges in terms of sales growth that is required to cover the significant cost base. The directors have also needed to institute measures to preserve cash and secure additional finance. However, detailed working capital projections have been prepared by the directors of Filtronic plc, which include the Aggregated Group. These projections show that the enlarged group can operate within the facilities of the enlarged group currently in place. For these reasons and on the basis the transaction goes ahead, they continue to adopt the going concern basis of accounting in preparing the combined financial information, which is consistent with the guidance per SIR2000.

The preparation of this Combined Financial Information requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Combined Financial Information and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Where such judgements are made they are included within the accounting policies below.

Transition

In preparing the Combined Financial Information, the guidance in IFRS 1 'First time adoption of International Financial Reporting Standards' has been applied in preparing an opening balance sheet at 1 June 2007 (date of transition) and the following exemptions from the retrospective application of the accounting policies have been applied:

- IFRS 3 'Business combinations' has not been applied retrospectively to business combinations that occurred before 1 June 2007.

While the individual entities in the Aggregated group have previously prepared company-only financial statements in accordance with UK GAAP for each of the periods presented in the Combined Financial Information, the Aggregated Group has not previously prepared financial statements. Accordingly, no reconciliations from previous GAAP amounts are presented. The transition balance sheet at 1 June 2007 is presented in note 23.

Foreign currency translation

The functional currency of each company within the Aggregated Group is the currency of the primary economic environment in which the company operates. The combined financial information is presented in sterling which is the presentational currency of the Aggregated Group.

Transactions denominated in foreign currencies are translated into the functional currency of each group company at the exchange rate ruling at the date of 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 translations of monetary assets and liabilities are recognised in the income statement.

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

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

- The assets and liabilities in their balance sheets plus any goodwill are translated at the rate of exchange ruling at the balance sheet date.
- The income statements and cash flow statements are translated at the average rate of exchange for the period, which approximates the rate of exchange ruling at the date of transactions.
- Currency translation movements arising on the translation of the net investments in foreign subsidiaries are recognised in movements in the parent company net investment.

Segmental reporting

Segment reporting is presented in respect of the Aggregated Group's business and geographical segments. Each reportable segment is subject to risks and returns that are different from the other segments.

Revenue

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

Research and development

All research costs are expensed as incurred.

Development costs 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. It is only at this point that future economic benefits are probable.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Aggregated Group intends to and has sufficient resources to complete development and to use or sell the asset. Development costs incurred on projects are capitalised where firstly the technical feasibility can be tested against relevant milestones, secondly the probable revenue streams foreseen over the life of the resulting project can support the development and thirdly sufficient resources are available to complete the development. These capitalised costs are amortised on a straight line basis over the expected life of the associated product.

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

Operating leases

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

Share-based payments

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

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

Interest bearing loans and borrowings

Financial assets and liabilities are recognised on the balance sheet when the Aggregated Group becomes party to the contractual provision of the instrument. Interest bearing borrowings are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the periods of the borrowings on an effective interest basis.

Impairment

The carrying amounts of non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised through the income statement. For goodwill and assets that have an indefinite useful life the recoverable amount is tested at each balance sheet date.

Goodwill

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

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

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 Aggregated 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.

Property, plant and machinery

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:

Plant & 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.

Taxation

The charge for taxation is based on the results for the year and takes into account full provision for deferred taxation due to temporary differences between the carrying value of an asset or liability and its tax base. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are not discounted and are offset where amounts will be settled on a net basis as a result of a legally enforceable right.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in the respect of prior years.

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 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.

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 members of the Aggregated Group. These forecasts require the use of estimates and judgements about the future performance of the respective subsidiaries.

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 meeting the resultant product qualification test.

Other certain research and development costs are likely to meet the definition of enhancement type costs and therefore do not meet the definition of development costs to be capitalised.

This 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.

2. Segment reporting

The Aggregated Group determines and presents operating segments based on the information that internally is provided to the chief executive officer (“CEO”) of the Aggregated Group, who is the Aggregated Group’s operating chief decision maker (“CODM”).

IFRS 8 requires consideration of the CODM within the Aggregated Group. In line with the Aggregated 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 Aggregated Group. The Aggregated Group has 3 customers representing individually over 10% each (2009: 2, 2008: 2) and in aggregate over 79% (2009: 86%, 2008: 96%) of revenue.

Business segments

In accordance with IFRS 8 two segments are identified based on geographical location of origin. Both of these segments operate in the same business, being the design of radio frequency conditioning product for base stations used in wireless telecommunication networks. Under IAS 14 there was also a single segment.

Geographical segments

In the year ended 31 May 2008 the entire business was located in the United Kingdom which represented one geographic segment (by origin). During the year ended 31 May 2009 the Aggregated Group set up operations in the United States of America. Accordingly in the two years ended 31 May 2010 the Aggregated Group has two separate geographic segments.

	2010 £	2009 £	2008 £
Revenue			
United Kingdom	396,960	433,300	124,100
United States of America	392,233	–	–
	<u>789,193</u>	<u>433,300</u>	<u>124,100</u>
Operating loss			
United Kingdom	(1,025,893)	(1,057,029)	(901,190)
United States of America	(848,329)	(399,700)	–
	<u>(1,874,222)</u>	<u>(1,456,729)</u>	<u>(901,190)</u>
Operating loss	<u>(1,874,222)</u>	<u>(1,456,729)</u>	<u>(901,190)</u>
Taxation (all relating to United Kingdom)	209,789	190,142	174,572
	<u>(1,695,030)</u>	<u>(1,255,672)</u>	<u>(716,586)</u>
Depreciation			
United Kingdom	38,980	31,494	25,076
United States of America	22,304	2,889	–
	<u>61,284</u>	<u>34,383</u>	<u>25,076</u>
Capital expenditure			
United Kingdom	22,925	–	69,994
United States of America	50,245	34,089	–
	<u>73,170</u>	<u>34,089</u>	<u>69,994</u>
Assets			
United Kingdom	449,652	518,106	679,399
United States of America	307,600	53,000	–
	<u>757,252</u>	<u>571,106</u>	<u>679,399</u>
Liabilities			
United Kingdom	(629,385)	(48,590)	(14,436)
United States of America	(433,384)	(219,500)	–
	<u>(1,062,769)</u>	<u>(268,090)</u>	<u>(14,436)</u>

3. Revenue analysis by destination

	2010 £	2009 £	2008 £
United Kingdom	255,100	173,100	73,100
United States of America	534,093	260,200	51,000
	<u>789,193</u>	<u>433,300</u>	<u>124,100</u>

4. Operating items

	2010	2009	2008
	£	£	£
<i>Operating loss is stated after charging:</i>			
Continuing operations:			
Research and development costs	1,379,554	778,334	671,215
Operating lease rentals	79,974	44,478	23,100
Goodwill impairment	—	181,161	—
	<u>1,459,528</u>	<u>1,003,973</u>	<u>694,315</u>

5. Employment costs

The average number of person employed by the Aggregated Group (including directors) during the year, analysed by category, was as follows:

	<i>Number of employees</i>		
	2010	2009	2008
Operations	21	15	10
Administration	3	2	—
	<u>24</u>	<u>17</u>	<u>10</u>

The aggregate payroll costs of these persons were as follows:

	2010	2009	2008
	£	£	£
Wages and salaries	1,422,305	944,332	619,920
Social security costs	138,299	99,101	66,251
Defined contribution pension costs	113,944	78,467	55,029
	<u>1,674,548</u>	<u>1,121,900</u>	<u>741,200</u>

6. Compensation of directors

The Aggregated Group's key management are executive and non-executive directors. The aggregate remuneration paid to or accrued to directors for services in all capacities during the period is as follows:

	2010	2009	2008
	£	£	£
Basic remuneration including bonus and benefits	392,246	267,010	189,586
Pension contributions	34,941	23,123	16,704
	<u>427,187</u>	<u>290,133</u>	<u>206,290</u>

During the year ended 31 May 2009 the aggregated emoluments and amounts receivable under long term incentive schemes of the highest paid director were £213,126 (2008: £206,290).

7. Finance income

	2010	2009	2008
	£	£	£
Interest income	—	—	10,032
Currency exchange gains	—	12,427	—
	<u>—</u>	<u>12,427</u>	<u>10,032</u>

8. Finance costs

	2010 £	2009 £	2008 £
Loan notes	6,814	1,512	–
Currency exchange losses	23,783	–	–
	<u>30,597</u>	<u>1,512</u>	<u>–</u>

9. Taxation

The reconciliation of the effective tax rate is as follows:

	2010 £	2009 £	2008 £
Loss before taxation	<u>(1,904,819)</u>	<u>(1,445,814)</u>	<u>(891,158)</u>
	2010 £	2009 £	2008 £
Loss before taxation multiplied by standard rate of tax in the UK of 28% (2009: 28%, 2008: 30%)	(533,349)	(404,827)	(267,347)
Tax losses surrendered in full to O&G for no payment	353,529	186,780	49,131
Difference in tax rate	209,789	182,354	152,752
R&D tax credits	<u>(239,758)</u>	<u>(154,449)</u>	<u>(109,108)</u>
	<u>(209,789)</u>	<u>(190,142)</u>	<u>(174,572)</u>

10. Share options

The Aggregated Group has granted various equity-settled share options as part of an Enterprise Management Incentive Scheme (2007). These options may be exercised upon the occurrence of a listing, take-over or full board consent. These options automatically lapse on the 10th anniversary from the grant date. At each reporting date the likelihood of these events occurring was not deemed probable so no IFRS 2 charge has been recognised in the combined financial information.

The terms and conditions of grants are as follows:

<i>Grant date/nature of scheme</i>	<i>Method of settlement accounting</i>	<i>Number of instruments</i>	<i>Vesting conditions</i>	<i>Contractual life of options</i>
10 Jan 2007 EMI option scheme	Equity	3,150,000	Non-market	10 years
22 Aug 2008 EMI option scheme	Equity	600,000	Non-market	10 years

In the financial years to 31 May 2008, 2009, and 2010 the options outstanding at the beginning of the year were respectively 3,150,000, 3,150,000 and 3,750,000. At the end of these periods the options outstanding were 3,150,000, 3,750,000 and 3,750,000.

All options were granted at 20p exercise price which was the weighted average exercise price throughout the 3 year period. In the year to 31 May 2009 600,000 options were granted.

No options were forfeited or exercised in the 3 year period. It is expected these will be exercised in full immediately prior to the proposed acquisition by Filtronic plc.

The options outstanding at 31 May 2010 have an exercise price of 20p and a weighted average contractual life of 10 years.

The estimate of the fair value of the services received is measured based on a Black Scholes model. Measurement inputs and assumptions are as follows:

	<i>10 January 2007 grant</i>	<i>22 August 2008 grant</i>
Fair value at measurement date	14p	13p
Weighted average share exercise price	20p	20p
Expected volatility used in the modelling under the Black Scholes model	61%	51%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years	10 years
Expected dividends	Nil	Nil
Risk free interest rate (based on national government bonds)	3%	3%

The expected volatility is based on the historic volatility of a peer group quoted company.

Share options are granted under a service condition and a non-market performance condition which requires a triggering event such as the sale or listing of the company. Such conditions are not taken into account in the grant date fair value measurement of the services received.

11. Tangible fixed assets

	<i>Plant and machinery £</i>
Cost	
At 1 June 2007	45,470
Additions	69,994
At 31 May 2008	115,464
Additions	34,089
At 31 May 2009	149,553
Additions	73,170
At 31 May 2010	222,723
Depreciation	
At 1 June 2007	5,700
Depreciation	25,076
At 31 May 2008	30,776
Depreciation	34,383
At 31 May 2009	65,159
Depreciation	61,284
At 31 May 2010	126,443
Carrying amount at 31 May 2008	84,688
Carrying amount at 31 May 2009	84,394
Carrying amount at 31 May 2010	96,280

12. Intangible assets

	<i>Goodwill</i> £
Cost	
At 1 June 2007 and 31 May 2008	–
Acquisitions through business combinations (note 19)	181,161
At 31 May 2009 and 2010	<u>181,161</u>
Amortisation and impairment losses	
At 1 June 2007 and 31 May 2008	–
Impairment loss	181,161
At 31 May 2009 and 2010	<u>181,161</u>
Carrying amount at 31 May 2008	<u>–</u>
Carrying amount at 31 May 2009	<u>–</u>
Carrying amount at 31 May 2010	<u>–</u>

Impairment loss

The recoverable amount of the cash-generating unit (the US business – Isotek Inc) was estimated based on its value in use. Much of the value acquired in this transaction represented the employees accumulated knowledge in the industry, which does not meet the definition for capitalisation as an intangible asset. The business taken on was a start-up simply incurring costs. At the acquisition date no sales contracts had been established resulting in losses being generated. Based on the assessment at May 2009, the value in use was deemed to be negligible as there were no sales in the period to May 2009 and no contracts in place for the future. Given the uncertainty over future cash flows and the continued losses the goodwill relating to the US business was deemed to be impaired. The impairment loss was allocated fully to goodwill. The residual assets of the US business have not been impaired as they are believed to be carried at their fair value less costs to sell.

The estimate of value in use was determined using a pre-tax discount rate of 10 percent.

Impairment testing for cash generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Aggregated Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Aggregated Group's operating segments as reported in note 2.

The aggregate carrying amount of goodwill is allocated entirely to the US division.

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 based on past experience and actual operating results;
- Cash flows for a further 20-year period were extrapolated using a constant growth rate of 5 per cent., which does not exceed the long-term average growth rate for the industry.
- It has been assumed that administrative expenses will increase with inflation and gross margins are to remain at comparable levels to those experienced during 2010.
- A pre-tax discount rate of 10 percent was applied in determining the recoverable amount of the unit. The discount rate was estimated based on past experience.

13. Inventories

	2010 £	2009 £	2008 £
Finished goods	22,209	6,500	–
Inventories are stated net of provision	–	–	–

14. Trade and other receivables

	2010 £	2009 £	2008 £
Trade receivables	148,379	81,010	76,414
Other receivables and prepayments	50,401	27,801	11,310
Corporation tax	179,676	157,215	121,735
	378,456	266,026	209,459
Trade receivables are stated net of provision	–	–	–

15. Trade and other payables

	2010 £	2009 £	2008 £
Trade payables	244,262	61,210	14,400
Other payables and accruals	222,928	10,000	36
Deferred consideration	89,202	79,580	–
Amounts owed to Oil and Gas	374,916	–	–
	931,308	150,790	14,436

The trade and assets of O&G were sold to Isotek Oil and Gas Limited with effect from 31 March 2010. This disposal is not reflected in the combined financial information as it relates to assets and liabilities that relate solely to the O&G business. Subsequent to this sale, net amounts were received into the bank account from 3rd parties on behalf of O&G. These amounts are repayable to Isotek Oil and Gas Limited and are shown in amounts owed to Oil and Gas above.

16. Interest-bearing loans and borrowings

	2010 £	2009 £	2008 £
Loan notes	131,461	117,300	–

17. Pension costs

	2010 £	2009 £	2008 £
Defined contribution scheme	113,944	78,467	55,029

18. Operating lease commitments

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

	2010 £	2009 £	2008 £
Less than one year	67,406	42,615	33,300
Between one and five years	5,014	73,405	89,100
	72,420	116,020	122,400

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

The Aggregated Group had no capital expenditure commitments at 31 May 2008, 31 May 2009 or 31 May 2010.

19. Acquisitions

On 1 March 2009 the Aggregated Group purchased the trade and assets of Xavier RF Solutions Inc.

	<i>Book value £</i>	<i>Fair value adjustment £</i>	<i>Fair value £</i>
Non current assets			
Property, plant and equipment	33,342	–	33,342
Current assets			
Other receivables and prepayments	7,569	–	7,569
Total assets	<u>40,911</u>	<u>–</u>	<u>40,911</u>
Current liabilities			
Loan note	(124,696)	–	(124,696)
Total liabilities	<u>(124,696)</u>	<u>–</u>	<u>(124,696)</u>
Net liabilities	<u>(83,785)</u>	<u>–</u>	<u>(83,785)</u>
Goodwill			<u>181,161</u>
Cash consideration			<u>97,376</u>

Goodwill on acquisitions relates to the relationships, skills and inherent market knowledge of employees within the acquired businesses. The results of the acquired business are reflected in note 2. The acquired business represents the United States of America geographical segment of the Aggregated Group.

Consideration comprised \$148,372 cash payable to the former directors of Xavier RF Solutions Inc. \$19,450 was settled in cash before 31 May 2009. The remaining amount remains payable at both 31 May 2009 and 31 May 2010. This amount is included within trade and other payables as deferred consideration payable within one year as the amount is deemed repayable upon demand.

20. Principal subsidiaries

The principal subsidiaries within the Aggregated Group are listed below. All subsidiaries are wholly owned by Isotek (Holdings) Limited and are registered in England and Wales, with the exception of Isotek Inc, which is incorporated in the United States of America.

Isotek (Holdings) Limited and its subsidiary undertakings:

Isotek Electronics Limited	Ordinary shares of £1 each
Isotek Inc	Ordinary shares of US\$1 each
Isotek Limited (dormant)	Ordinary shares of £1 each
Microecho Limited (dormant)	Ordinary shares of £1 each

21. Related parties

The Aggregated Group has the following related parties:

- Directors of the Aggregated Group who are currently deemed to be key management (see note 6).
- Subsidiaries (see note 20).
- O&G division within Isotek Electronics Limited.

The following transactions were carried out with related parties:

Directors

Directors emoluments are given in note 6.

As described in note 19, Isotek Inc purchased the trade and assets of Xavier on 1 March 2009. Consideration of \$148,372 was payable to the former directors of Xavier. These directors subsequently became directors of the Aggregated Group. Certain of this consideration has yet to be settled and is included in note 15 as deferred consideration.

Subsidiaries

Transactions between the Aggregated Group and its subsidiaries have been eliminated within the combined financial information.

O&G

As detailed in note 1 the full cash balance for Isotek Electronics Limited has been included within the combined financial information. Transactions relating to the O&G division are included within this cash balance. This quasi-equity funding by O&G is reflected in the movements in the parent company net investment.

The O&G division was sold to Isotek Oil and Gas Limited with effect from 31 March 2010. Subsequent to this WT received and paid amounts on behalf of O&G. These amounts are repayable to the former shareholders of the Group and are shown in note 15.

There were no other transactions with the O&G division.

22. Financial instruments

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

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

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

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

There is no material difference between the carrying amount and fair value of interest-bearing loans and borrowings. Further details relating to the Aggregated Group's funding strategy (including the maturity details of the bank loans) and its credit, interest rate and currency risk policies are provided below.

Amounts owed to O&G are payable in less than one year.

Liquidity Risk

The following are cash flows relating to the Aggregated Group's financial liabilities, including estimated interest payments but excluding the impact of netting agreements, based on the assumption that the year end loans are repaid at the end of the committed period and interest rates remain constant.

	<i>Carrying amount</i> £	<i>Contract cash flows</i> £	<i>Less than 1 year</i> £	<i>1-2 years</i> £	<i>2-5 years</i> £
31 May 2010					
Loan notes	131,461	131,461	131,461	—	—
Trade and other payables	931,308	931,308	931,308	—	—
	<u>1,062,769</u>	<u>1,062,769</u>	<u>1,062,769</u>	<u>—</u>	<u>—</u>

	<i>Carrying amount £</i>	<i>Contract cash flows £</i>	<i>Less than 1 year £</i>	<i>1-2 years £</i>	<i>2-5 years £</i>
31 May 2009					
Loan notes	117,300	117,300	117,300	–	–
Trade and other payables	150,790	150,790	150,790	–	–
	<u>268,090</u>	<u>268,090</u>	<u>268,090</u>	<u>–</u>	<u>–</u>
31 May 2008					
Loan notes	–	–	–	–	–
Trade and other payables	14,436	14,436	14,436	–	–
	<u>14,436</u>	<u>14,436</u>	<u>14,436</u>	<u>–</u>	<u>–</u>

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:

	<i>2010 £</i>	<i>2009 £</i>	<i>2008 £</i>
Cash and cash equivalents	176,662	214,186	385,252
Trade and other receivables	378,456	108,811	87,724
	<u>555,118</u>	<u>322,997</u>	<u>472,976</u>

Credit risk is primarily related to trade receivables. The Aggregated Group's business is concentrated 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 Aggregated Group has historically incurred only low levels of unrecoverable receivables. Therefore credit risk is considered to be low.

Trade receivables included the following amounts for the Aggregated Group's largest customers:

	<i>2010 £</i>	<i>2009 £</i>	<i>2008 £</i>
Customer one	87,787	52,900	40,714
Customer two	30,455	15,700	35,700
Customer three	18,324	8,510	–
Other customers	11,813	3,900	–
	<u>148,379</u>	<u>81,010</u>	<u>76,414</u>

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

	<i>2010 £</i>	<i>2009 £</i>	<i>2008 £</i>
Not past due	91,221	–	–
Past due less than 3 months	51,862	25,310	76,414
Past due more than 3 months	5,296	55,700	–
	<u>148,379</u>	<u>81,010</u>	<u>76,414</u>

Interest rate risk

At 31 May 2009 and 31 May 2010 the Aggregated Group had a loan note outstanding of \$190,000. Interest is chargeable at US prime rate plus 1 per cent.. The interest costs are shown in note 9, which highlights that the Aggregated Group has no significant exposure to interest rate risk.

Foreign currency risk

The Aggregated Group's reporting currency is sterling. Aggregated Group's results and financial position are affected by fluctuations in foreign currency exchange rates.

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

	2010	2009	2008
	USD	USD	USD
	£	£	£
Cash and cash equivalents	86,793	9,990	—
Trade receivables	132,466	72,500	35,700
Trade payables	(159,309)	(12,620)	—
Net exposure	<u>59,950</u>	<u>69,870</u>	<u>35,700</u>

Due to the low volume of trade in the three years ended 31 May 2010 the Aggregated Group has no significant exposure to foreign currency risk.

Capital management

In line with the disclosure requirements of IAS 1, 'Presentation of Financial Statements,' the Aggregated Group regards its capital as being the issued share capital together with its additional paid in capital along with any facilities used to manage short term working capital requirements.

The Aggregated Group is not subject to any externally imposed capital requirements.

The Aggregated Group's objectives when managing capital are to safeguard the Aggregated Group's ability to continue as a going concern in order to provide future returns for shareholders. The going concern assumption is discussed further in note 1.

23. Transition balance sheet

The transition IFRS balance sheet at 1 June 2007 is set out below. No significant reconciling items to previous GAAP were identified.

	2007
	£
Non current assets	
Property, plant and equipment	<u>39,770</u>
Current assets	
Cash and cash equivalents	<u>737,946</u>
Total assets	<u>777,716</u>
Current liabilities	
Trade and other payables	<u>(4,536)</u>
Total liabilities	<u>(4,536)</u>
Net assets	<u>773,180</u>
Parent company net investment	<u>773,180</u>

24. Post balance sheet events

On 22 July 2010 an agreement was reached between Isotek Electronics Limited and Isotek Oil and Gas Limited whereby Isotek Electronics Limited would pay Isotek Oil and Gas Limited £132,252 in return for Isotek Oil and Gas Limited taking on any further actual or contingent tax liabilities over and above those

already levied of Isotek Electronics Limited for the financial years ending 31 May 2010. This transaction has not been included within the combined financial information. It remains unclear what savings will be realised by Isotek Electronics Limited as a result of this transaction but it will cover Isotek Electronics Limited from any potential tax exposure from when the O&G division was within Isotek Electronics Limited.

In July 2010 additional debt funding of £900,000 was put in place. This debt is interest free but options over 900,000 ordinary shares of 1p each in Isotek were granted pro rata at an exercise price of 20p per share.

In September 2010 a further £250,000 of debt was arranged on the same terms, involving the granting of a further 250,000 share options also at an exercise price of 20p.

In October 2010 a further £250,000 of debt was arranged on the same terms, involving the granting of a further 250,000 share options also at an exercise price of 20p.

PART VIII – UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP



The Directors
Filtronic plc
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Shipley
West Yorkshire
BD17 7SW

KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

28 October 2010

Dear Sirs

Filtronic plc

We report on the pro forma financial information (the ‘Pro forma financial information’) set out in Part VIII of the Prospectus dated 28 October 2010, which has been prepared on the basis described on page 75, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by Filtronic plc in preparing the financial statements for the period ended 31 May 2010. This report is required by paragraph 20.2 of Annex 1 of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

It is the responsibility of the directors of Filtronic plc to prepare the Pro forma financial information in accordance with paragraph 20.2 of Annex I of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Filtronic plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Filtronic plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Filtronic plc.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit Plc
Chartered Accountants

PRO FORMA STATEMENT OF NET ASSETS

The following unaudited consolidated *pro forma* statement of net assets statement for the Enlarged Group has been prepared in accordance with IFRS and on the basis of the notes set out below to illustrate the effect of the Acquisition on the net assets of Filtronic as if it had been completed on 31 May 2010.

The *pro forma* statement of net assets has been prepared for illustrative purposes only and, because of its nature, the *pro forma* statement addresses a hypothetical situation and does not, therefore, represent the Enlarged Group's actual financial position or results following the Acquisition.

Pro forma statement of net assets

	Adjustments				
<i>Filtronic plc consolidated net assets 31 May 2010⁽¹⁾ £000</i>	<i>Isotek consolidated net assets 31 May 2010⁽²⁾ £000</i>	<i>Acquisition and share issue⁽³⁾ £000</i>	<i>Consolidation⁽⁴⁾ £000</i>	<i>Pro forma consolidated net assets 31 May 2010⁽⁵⁾ £000</i>	
Property, plant and equipment	1,998	96	0	0	2,094
Investments	0	0	10,861	(10,867)	0
Goodwill and intangibles	0	0		11,167	11,167
Development expenditure	0	0	0	0	0
Deferred tax assets	0	0	0	0	0
Total non current assets	1,998	96	10,861	306	13,261
Inventories	1,998	22	0	0	2,020
Trade and other receivables	3,361	378	0	0	3,739
Cash and cash equivalents	16,245	260	(5,335)	0	11,070
Current tax assets	0	0	0	0	0
Current assets	21,604	660	(5,335)	0	16,929
Total assets	23,602	756	5,526	306	30,190
Deferred tax liabilities	0	0	0	0	0
Provisions	0	0	0	0	0
Other non current liabilities	(108)	0	0	0	(108)
Bank borrowings	0	0	0	0	0
Total non current liabilities	(108)	0	0	0	(108)
Trade and other payables	(2,886)	(931)	0	0	(3,817)
Current tax liabilities	0	0	0	0	0
Provisions	(706)	0	0	0	(706)
Deferred Income	(17)	0	0	0	(17)
Bank borrowings	0	(131)	0	0	(131)
Total current liabilities	(3,609)	(1,062)	0	0	(4,671)
Total liabilities	(3,717)	(1,062)	0	0	(4,779)
Net assets	19,885	(306)	5,526	306	25,411

Notes

- (1) The consolidated net assets of Filtronic as at 31 May 2010 have been extracted without material adjustment from its audited results for the twelve months ended 31 May 2010.

The adjustments are as follows:

- (2) The consolidated net assets of Isotek have been extracted without material adjustment as set out in Part VII of this document.
- (3) Acquisition – consideration of £10.9 million is to be funded by existing cash resources of £4.23 million along with additional share issue of 18,550,000 shares at 35.75p generating £6.6 million. On the assumption, that on Completion, Isotek net debt will be £1.52 million (and that there are no other adjustments as at Completion), the cash consideration would be £4.23 million. Deal fees in relation to the transaction are £1.1 million.

- (4) Consolidation – for the purposes of the pro forma statement of net assets, the difference between consideration and net assets of Isotek is treated as goodwill arising from the Acquisition, which amounts to £11.2 million and is calculated as follows:

	£'000
Consideration payable for Isotek (subject to adjustments as set out in the Warranty and Indemnity Deed)	4,230
Share issues in consideration for Isotek	
18,550,000 at latest available share price of 35.75p	6,632
Total consideration for Isotek	10,861
Net assets / (liabilities) of Isotek	(306)
	<hr/>
Goodwill	11,167

- (5) No account has been taken of the changes in trading or the financial position of Filtronic or Isotek since 31 May 2010.

PART IX – DIRECTORS AND SENIOR MANAGEMENT

1. Board of Directors

Howard Ford – Non-Executive Chairman

Howard Ford was appointed Chairman of the Company's board of directors in 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. Howard has also served on the boards of a UK charity and a number of privately held companies in the UK and France.

Dr Hemant Mardia – Chief Executive

Dr Hemant Mardia was appointed as an executive director on the board of Filtronic plc on 18 October 2007. He has served as managing director on Filtronic Broadband Limited since 1997. Hemant joined Filtronic in 1984 and gained a doctorate in the field of electronics from Leeds University. He is a fellow of the Institute of Electronics & Technology, a fellow of the Society of Cable Telecommunications Engineers and a senior member of the Institute of Electrical & Electronic Engineers.

Mike Brennan – Finance Director

Mike Brennan was appointed to the board on 1 September 2009.

Mike was previous finance director of GTL Resources plc, an AIM listed company with operations in the USA. Earlier in his career he held a number of financial roles with Petroplus Refining Teesside Limited (formerly Philips-Imperial Petroleum Limited) and various ICI businesses.

Graham Meek – Non-Executive Director

Graham Meek has been a non-executive director since 1999. Since 30 January 2006 he has been the senior non-executive director and chairman of the Audit Committee since May 2007. He was a non-executive director of ICM Computer Group plc from 2002-5 and Chairman from 2005 to 2007 when the company was acquired. He was chairman of SPI Lasers plc until its takeover in October 2008, and is a non-executive director of Capital Gearing Trust Plc.

Reginald Gott – Non-Executive Director

Reginald Gott was appointed as a non-executive director on 13 July 2006 and is Chairman of the Remuneration Committee. Between 2002 and 2008 he was a director of FKI plc, an international diversified engineering group. He is Chief Executive of the Nuaire Group.

Alan Needle

It is proposed that, on Completion, Alan Needle will be invited to join the board of Filtronic as an executive director.

Alan Needle is Managing Director of Isotek Electronics Limited. He was Chief Executive of the Wireless Infrastructure division of Filtronic plc from 1989 to 2005.

2. Board Composition

The Board currently comprises three independent non-executive Directors and two executive Directors. A non-executive Director, Howard Ford, chairs the Board.

The Board is satisfied that Howard Ford's other board commitments are not such as to interfere with the performance of the Chairman's duties of the Group, of approximately one day per week.

The Board is satisfied that there are no potential conflicts of interest between the Chairman's duties to the Company and other board duties.

The Board considers that Howard Ford, Graham Meek and Reginald Gott, the non-executive Directors of the Company, are independent in character and judgement. No non-executive Director:

- has been an employee of the Group within the last five years;
- has, or had within the last three years, a material business relationship with the Group;
- receives remuneration other than a Director's fee;
- has close family ties with any of the Group's advisers, Directors or senior employees;
- holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies;
- represents a significant Shareholder; or
- has served on the Board for more than nine years, apart from Graham Meek, who is judged by the Board to be independent, and is subject to annual re-election.

All Directors are required to offer themselves for re-election at the third annual general meeting after the general meeting at which he was appointed.

PART X – ADDITIONAL INFORMATION

1. Responsibility

The Company, the Proposed Director, and the Directors, whose names appear on page 21 of this document, accept responsibility for the information contained in this document. Having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of the knowledge of the Company, the Proposed Director, and the Directors, in accordance with the facts and contains no omission likely to affect its import.

KPMG accept responsibility for their reports contained in Parts VII and VIII of this document. To the best of the knowledge and belief of KPMG (who have taken all reasonable care to ensure that such is the case) the information in those reports is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and registered office

The Company was incorporated in England and Wales on 25 January 1994 under the Companies Act 1985 (“**1985 Act**”) as a public company limited by shares with the name YPCS28 PLC and with registered number 02891064. The principal legislation under which the Company operates are the Companies Act and the regulations made thereunder.

The Company’s principal place of business and the business address of the Directors is Unit 2, Acorn Park, Charlestown, Shipley BD17 7SW. The Company’s telephone number is +44 (0) 1325 306886. The Company’s registered office is at Unit 2, Acorn Park, Charlestown, Shipley BD17 7SW.

2.1 As at the date of this document, no Director or senior manager except as disclosed in paragraph 2.2 of this Part X:

- (A) has been at any time in the five years prior to the date of this document a director (or otherwise a member of any administrative, management or supervisory body) or partner of any companies or partnerships other than directorships or partnerships of any member of the Group from time to time; or
- (B) has any convictions in relation to fraudulent offences for at least the last five years; or
- (C) has been adjudged bankrupt or been a party to a deed of arrangement or any form of voluntary arrangement; or
- (D) has in the five years prior to the date of this document been a director of any company which, while he was such a director was put into receivership or compulsory liquidation or creditors’ voluntary liquidation or company voluntary arrangement or has had an administrator or an administrative or other receiver appointed or entered into any composition or arrangement with its creditors generally or any class of its creditors; or
- (E) in the five years prior to the date of this document has been a partner in any partnership which, while he was a partner, was put into compulsory liquidation, administration or partnership voluntary arrangement; or
- (F) has had an administrative or other receiver appointed in respect of any asset belonging to him or her or to a partnership of which he or she was a partner; or
- (G) has received any official public incrimination and/or sanctions by any statutory or regulatory authorities, including designated professional bodies, or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company in the previous five years.

2.2 Other directorships held by the Directors in the five years preceding the date of this document in respect of companies other than the Company and other members of the Group are as follows:

<i>Director</i>	<i>Company</i>	<i>Status</i>
Howard Ford	The Branshaw Foundation Limited	Current
	Cambridge Semiconductor Limited	Current
	Varioptic SA	Resigned 30/07/2010
	Servista Limited*	Dissolved 05/02/2010
	Thames Valley Enterprise Limited	Dissolved 28/07/2006
Hemant Kumar Mardia	Rudding Dower Management Limited	Current
	RFMD (UK) Limited	Resigned 29/02/2008
	Teledyne Properties Limited	Resigned 15/08/2008
	Filtronic Comtek (UK) Limited	Dissolved 06/01/2010
	Filtronic Cable Communications Limited	Dissolved 31/03/2009
	Filtronic Executive Share Option Trustees Limited	Dissolved 31/03/2009
	Filtronic Quest Trustees Limited	Dissolved 31/03/2009
	Filtronic Microtek Limited	Dissolved 25/03/2009
Michael Peter Brennan	GTL Resources plc	Resigned 31/12/2008
	GTL Resources Overseas Investments Limited	Resigned 31/12/2008
	GTL Resources USA Inc	Resigned 31/12/2008
	Illinois River Energy Holdings Llc	Resigned 31/12/2008
	Illinois River Energy Llc	Resigned 31/12/2008
	GTL Australian Holdings Pty Ltd	Dissolved 18/06/2008
	Liquigaz Holdings Pty Ltd	Dissolved 18/06/2008
	Liquigaz Pty Ltd	Dissolved 18/06/2008
	Redcloud Investment Inc	Dissolved 28/03/2008
	GCS Holdings Inc	Dissolved 28/03/2008
	GCS Vietnam Inc	Dissolved 28/03/2008
Reginald Lawrence Gott	Nu-Aire Limited	Current
	Nu-Oval Acquisitions 1 Limited	Current
	Nu-Oval Acquisitions 2 Limited	Current
	Nu-Oval Acquisitions 3 Limited	Current
	Nuhold Limited	Current
	Oval (1888) Limited	Current
	FKI plc	Resigned 01/07/2008
	FKI Limited	Resigned 01/07/2008
	FKI Engineering Limited	Resigned 01/07/2008
	Cleco Systems Limited	Resigned 31/12/2008
	FKI Logistex Conveyors Limited	Resigned 31/12/2008
	FKI Logistex Group Limited	Resigned 31/12/2008
	G Flow Systems Limited	Resigned 02/07/2008
	Logistex Limited	Resigned 31/12/2008
	Logoldco Limited	Resigned 02/07/2008
	Marelli UK Limited	Resigned 10/05/2007
	Automated Systems Integrators (ASI) Limited	Resigned 19/02/2008
	Cleco Europe Limited	Resigned 06/08/2007
	Cleco Services Limited	Resigned 24/10/2006
	Crisplant UK Limited	Resigned 24/10/2006
	FKI Logistex Evolution Limited	Resigned 23/10/2006
	IO Systems and Programming Limited	Resigned 21/08/2007

<i>Director</i>	<i>Company</i>	<i>Status</i>
Graham Meek	Trumper Hill Limited	Current
	Capital Gearing Trust PLC	Current
	British Cardiovascular Society	Current
	ICM Computer Group PLC	Resigned 06/06/2007
	SPI Lasers Plc	Resigned 09/10/2008
Alan Needle**	Craven Midas Limited	Current
	Bradford Breakthrough Limited	Resigned 31/12/2005
	Filtronic plc	Resigned 01/01/2006

* Servista Limited was placed into administration on 3 July 2009 and a voluntary creditors liquidation commenced on 5 February 2010.

** To be appointed after Completion.

- 2.3 No Director nor senior manager has, or has had, any interest in any transaction effected by the Company or any of its subsidiaries which is or was unusual in its nature or conditions or significant to the business of the Group and (in any such case) was effected during the current or immediately preceding financial year of the Company or during an earlier financial year and remains in any respect outstanding or unperformed.
- 2.4 There are no outstanding loans or guarantees granted or provided by any member of the Group to or for the benefit of any Director.
- 2.5 No Director has any potential conflict of interest between his duties to the Company and his private interests or other duties.

3. Share Capital

- 3.1 The following table sets out the issued and fully paid share capital of the Company as at 27 October 2010 (being the latest practicable date before the publication of this document) and as it will be (assuming that no options or awards granted under the Company Share Schemes are exercised between the date of this document and completion of the Issue) following the allotment and issue of 18,550,000 New Ordinary Shares under the Issue. The ISIN for the New Ordinary Shares will be GB0003362992.

	<i>Issued and fully paid</i>	
	<i>Nominal Value</i>	<i>Number</i>
Number of Shares prior to completion of the Issue	£7,432,309.30	74,323,093
Proposed number of Shares upon completion of the Issue	£9,287,309.30	92,873,093

The Shares are admitted to trading on the London Stock Exchange's market for listed securities and are listed on the Official List. Applications will be made to the UKLA for the New Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on the London Stock Exchange's market for listed securities.

As at 27 October 2010 (being the latest practicable date before the publication of this document), the Company did not hold any treasury shares. No Shares have been issued otherwise than as fully paid. The Shares have a nominal value of 10 pence each.

- 3.2 During the three financial years ended 31 May 2008, 2009 and 2010 and for the period 1 June 2010 to 2010 (the latest practicable date prior to the publication of this document), there were no allotments of Shares made by the Company.
- 3.3 The Issue will result in an overall immediate dilution of approximately 20 per cent. of the existing ordinary shares in the capital of the Company.
- 3.4 By ordinary resolution of the Company passed on 24 September 2010:
- (a) in substitution for all subsisting authorities, the Directors were generally and unconditionally authorised, in accordance with section 551 of the Companies Act, to exercise all powers of the Company to allot Shares in the Company or grant rights to subscribe for, or convert any security into, Shares in the Company:

- (I) up to an aggregate nominal amount of £2,477,436; and
- (II) up to a further aggregate nominal amount of £2,477,436 provided that such Shares or rights are equity securities (as defined in section 560(1) of the Companies Act) in connection with an offer by way of a rights issue to the holders of Ordinary Shares in proportion (as nearly as may be practicable) to their existing holdings of Ordinary Shares (and to the holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities) but subject to the Directors having the right to make such exclusions or other arrangements as they deem necessary or expedient in relation to treasury Shares, fractional entitlements, record dates, legal or practical problems under the laws in any territory or jurisdiction or the requirements of any relevant regulatory body or stock exchange or any other matter,

and so that this authority shall expire on 24 September 2015 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2011 but so that the Company may, before this authority expires, make any offer, agreement or arrangement which would or might require Shares to be allotted or rights to be granted after such expiry and the Directors may allot Shares or grant rights pursuant to such offer, agreement or arrangement as if the authority had not expired; and

- (b) the Directors were authorised to offer the holders of (and persons entitled by transmission to) Ordinary Shares in the capital of the Company, the right to elect to receive in respect of all or part of their holdings of Ordinary Shares, additional Ordinary Shares, credited as fully paid up, instead of cash in accordance with the provisions of the Company's Articles of Association (as amended from time to time) in respect of any or all dividends declared within the period beginning on the day following the date of this resolution and ending at the conclusion of the Annual General Meeting of the Company to be held in the year 2015.

3.5 By special resolution of the Company passed on 24 September 2010:-

- (a) the Directors were generally authorised pursuant to section 570 of the Companies Act to allot equity securities (as defined in section 560 of the Companies Act) for cash as if section 561 of the Companies Act did not apply to the allotment but this power shall be limited to:
 - (I) the allotment of equity securities where such securities have been offered to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their existing holdings of Ordinary Shares (and to the holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities) but subject to the Directors having the right to make such exclusions or other arrangements as they deem necessary or expedient in relation to treasury Shares, fractional entitlements, record dates, legal or practical problems under the laws in any territory or jurisdiction or the requirements of any relevant regulatory body or stock exchange or any other matter; and
 - (II) the allotment of equity securities up to a maximum nominal amount of £371,615,

and so that this power shall expire on 23 December 2011 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2011 but so that the Company may, before this power expires, make any offer, agreement or arrangement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such offer, agreement or arrangement as if this power had not expired; and
- (b) the Company was generally and unconditionally authorised for the purposes of section 701 of the Companies Act to make market purchases (within the meaning of section 693 of the Companies Act) of Ordinary Shares provided that:

- (I) the maximum number of Ordinary Shares which may be purchased is 7,432,309 (representing 10 per cent. of the Company's issued Ordinary Share capital as at 2 August 2010);
- (II) the minimum price (exclusive of expenses) which may be paid for each Ordinary share is 10p;
- (III) the maximum price (exclusive of expenses) which may be paid for each Ordinary Share is an amount equal to 105 per cent. of the average of the middle market quotations of an Ordinary Share taken from the Official List for the five business days immediately preceding the day on which the share is contracted to be purchased;
- (IV) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on 23 December 2011 whichever is the earlier (unless previously renewed, varied or revoked by the Company in general meeting); and
- (V) the Company may, before such expiry, enter into one or more contracts to purchase Ordinary Shares under which such purchases may be completed or executed wholly or partly after the expiry of this authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

4. Employee Share Plans

The Company currently operates two employee share plans. Both of the plans were approved by the Shareholders on 19 September 2008.

The Sharesave Plan (see paragraph 4.1 below) is a standard HMRC approved all-employee plan.

The Performance Share Plan is a long-term incentive plan for selected executive directors and employees of the Group (see paragraph 4.2 below).

The Company is also seeking Shareholders' approval for authority to establish the ESOP at a general meeting of the Company to be held on 15 November 2010.

4.1 *The Filtronic plc Sharesave Plan (the "Sharesave Plan")*

(A) General

Options under the Sharesave Plan are granted by the Company, are not transferable (except on death) and are not pensionable benefits.

(B) Eligibility

Any employee (including any full-time director) of the Company or a participating subsidiary who either is based in the UK and has been employed for a qualifying period of such length as the Board may determine from time to time (but not exceeding five years) or is nominated by the Board, is eligible to participate in the Sharesave Plan.

(C) Issue of invitations

Invitations to apply for options may be issued at any time (subject to regulatory restrictions) but are normally issued immediately following the determination of the exercise price.

The exercise price can only be determined by reference to a dealing day falling:

- in the period of 6 weeks commencing on the dealing day following the announcement by the Company of its results for any period;
- in the period of 6 weeks commencing on the day a new savings contract prospectus is announced or comes into force; or

- at other times if, in the opinion of the Board, the circumstances are exceptional.

No options may be granted after 18 September 2018.

(D) Exercise price

The exercise price per share must not be less than the higher of:-

- 80 per cent (or such other percentage as set out in the legislation governing sharesave plans) of market value, being the middle market quotation of a Share as derived from the Daily Official List, for the dealing day immediately preceding the date invitations are issued to participants or the date specified in the invitation, or, if the Board so determines, the average of the middle market quotations of a Share on the three dealing days ending on either of those dates (or as agreed in advance with HM Revenue & Customs); and
- in the case of options to subscribe for Shares, the nominal value of a Share.

(E) Monthly savings

Any employee who applies for an option under the Sharesave Plan must enter into a HM Revenue & Customs approved “save as you earn” contract (the “**Savings Contract**”). The employee agrees to make monthly savings contributions of a fixed amount, currently of not less than £5 or more than £250. Savings Contracts may be for three years or (if the Company allows) for five years. Upon expiry of the Savings Contract, the employee will normally be entitled to receive a tax free bonus (if bonus rates are above zero) in addition to repayment of the savings contributions. The employee may elect to apply the proceeds of the Savings Contract to exercise the option and acquire Shares. Alternatively, the employee may choose to withdraw the proceeds of the Savings Contract.

(F) Exercise of options

Normally, provided employees have remained in employment, options under the Sharesave Plan will be exercisable only during the period of six months from the maturity of the Savings Contract.

(G) “Good” leavers

Where an optionholder leaves employment with the Company or a participating subsidiary less than three years or less from grant of an option, options will normally lapse.

However, exercise of options is permitted following death, cessation of employment by reason of injury, disability, redundancy, retirement on reaching age 60 (or contractual retirement age), cessation of employment more than three years from grant of an option (except in cases of dismissal for misconduct), or where the optionholder’s employer ceases to be a part of the Group.

In such cases, options may be exercised within six months of leaving, to the extent that the funds then available in the optionholder’s Savings Contract (including any interest or bonus) permit. If an optionholder dies, the optionholder’s personal representatives may normally exercise the options within twelve months of the date of death.

If the optionholder reaches age 60 but remains employed by the Company or a participating subsidiary, he may exercise his option within six months of reaching that age.

(H) Corporate events

Exercise of options is permitted in the event of a takeover, amalgamation, reconstruction or voluntary winding-up of the Company. Alternatively, the Company (by agreement with the

acquiring company) may offer optionholders the opportunity to release their options in consideration of the grant of options in the acquiring company.

(I) **Dilution limit**

Options may be granted over unissued or existing Shares.

The number of new Shares that may be issued to satisfy options and awards granted under the Sharesave Plan and all of the Company's other employee share plans will be restricted to 10 per cent. of the ordinary issued share capital of the Company over any 10 calendar year period.

If options are to be satisfied by a transfer of existing Shares, the percentage limit stated above will not apply. In accordance with the current Association of British Insurers guidelines, the 10 per cent. limit will apply to Awards satisfied by the transfer of treasury Shares.

Treasury Shares shall cease to count towards the limit if and when institutional investor guidelines cease to require such Shares to be so counted.

(J) **Rights attaching to Shares**

Shares issued or transferred upon the exercise of options will rank equally alongside Shares then in issue (except for any right attaching to Shares by reference to a record date before the date of allotment). The Company will apply to the UK Listing Authority for the listing of any newly issued Shares.

(K) **Variation of share capital**

If there is a variation of the share capital of the Company, the Board may adjust the number of Shares subject to any option and the exercise price payable upon the exercise of any option. However, no adjustments may be made without the prior approval of HMRC.

(L) **Alteration of the Sharesave Plan**

The Board may amend the Sharesave Plan. However, the provisions governing eligibility requirements, equity dilution, individual limits on participation, the basis for determining optionholders' rights to acquire Shares and the adjustments that may be made following a variation of capital cannot be altered to the advantage of optionholders without the prior approval of the Shareholders in general meeting. There is an exception for minor amendments to benefit the administration of the Sharesave Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for optionholders in the Sharesave Plan or for any member of the Group.

No amendment to a feature necessary to meet the legislative requirements governing sharesave will normally take effect unless and until such amendment has been approved by HMRC.

No alteration to the material disadvantage of optionholders may be made without the Board first inviting each optionholder to indicate whether they approve of the alteration and the alteration being approved by a majority of optionholders.

4.2 ***The Filtronic plc Performance Share Plan (the "PSP")***

(A) **General**

Awards under the PSP are granted by the Company, are not transferable (except on death) and are not pensionable benefits.

The operation of the PSP is overseen by the Remuneration Committee, which consists entirely of non-executive directors.

Awards granted under the PSP may be either conditional awards or options ("**Awards**"). The vesting of Awards is normally subject to performance conditions.

Awards under the PSP may be satisfied by new Shares issued at par, Shares purchased in the market by an employees' trust or by the transfer of treasury Shares. Awards may, at the discretion of the Remuneration Committee, be satisfied wholly or partly in cash.

(B) Eligibility

Any employee (including executive directors) of the Group is eligible to participate in the PSP at the discretion of the Remuneration Committee.

(C) Grants of Awards

Awards under the PSP may be granted:

- in the period of six weeks commencing on the dealing day following the day on which the Company announces its results for any period; and
- exceptionally, and subject to the Model Code and other relevant restrictions on dealings in Shares, on any other day on which the Remuneration Committee determines that circumstances are sufficiently exceptional to justify the grant.

No Awards may be granted after 18 September 2018.

(D) Vesting of Awards and Performance Conditions

Awards will normally vest three years after they are awarded or if later the date on which the performance conditions are determined to be satisfied.

The vesting of Awards is subject to performance conditions. The performance conditions for initial Awards was based on growth in earnings per share ("EPS") over a three year period. If growth in EPS exceeds growth in the Retail Price Index ("RPI") by 3 per cent. per year (on a compound basis) then 25 per cent. of the awarded Shares will vest. If growth in EPS exceeds growth in RPI by 10 per cent. per year (on a compound basis) then 100 per cent. of the awarded Shares will vest. If growth in EPS falls between these two targets, the awarded Shares will vest on a sliding scale between 25 per cent. and 100 cent. of the awarded Shares.

The Remuneration Committee can set different performance conditions from those described above for later Awards provided that, in the reasonable opinion of the Remuneration Committee, the new targets are not materially less challenging in the circumstances than those described above.

The Remuneration Committee may also vary the performance conditions applying to existing Awards if an event has occurred which causes the Remuneration Committee reasonably to consider that it would be appropriate to amend the performance conditions, provided the Remuneration Committee considers the varied conditions to be not materially less difficult to satisfy than the original conditions would have been but for the event in question. The Remuneration Committee shall act fairly and reasonably in making the alteration.

On the vesting of an Award, a participant will be entitled to receive a payment in cash (and/or Shares) of an amount equivalent to any dividends payable in relation to the vested Shares subject to the Award over the vesting period for that Award.

(E) Cessation of employment

If a participant leaves the Group, his or her Awards will normally lapse. However, if the reason for a participant leaving is injury, disability, redundancy, retirement, the sale of a participant's employing business or in other circumstances at the Remuneration Committee's discretion, then the Remuneration Committee may either:-

- allow a time-apportioned number of the unvested Award Shares (determined having regard to that part of the original vesting period which has then elapsed relative to the

period of three years) to be retained and to vest, if at all, after determination of the applicable performance conditions on the normal vesting date; or

- allow a number of the unvested Award Shares (determined having regard to both the extent to which the original vesting period has then elapsed relative to the period of three years and the extent to which the applicable performance conditions are considered to be satisfied) to vest immediately.

In either case, the Remuneration Committee (acting fairly and reasonably) will retain a discretion to adjust the application of time pro-rating to increase vesting outcomes if it does not consider that the vesting outcome was appropriate in a particular case. Similar rules will apply if a participant dies, with performance conditions normally assessed until the time of death.

(F) Corporate events

In the event of a takeover of the Company, unvested Awards will vest subject to the application of the applicable performance conditions until the time of the takeover. The vesting of Award Shares on a takeover will also be subject to a time pro-rating requirement.

Additionally, in the event of a scheme of arrangement (not being an internal corporate reorganisation), a winding-up of the Company or (at the discretion of the Remuneration Committee) a demerger or similar event, a proportion of any unvested Awards will vest, calculated on the same basis as for a takeover of the Company.

The Remuneration Committee (acting fairly and reasonably) also retains a discretion to adjust the application of time pro-rating to increase vesting outcomes if it considers that the vesting outcome was not appropriate in a particular case.

(G) Variations of share capital

If there is any variation of the share capital of the Company or a demerger or a special dividend or other similar event which affects the market value of the Shares to a material extent the Remuneration Committee may adjust the number of Shares subject to Awards, and (where an option has been granted) the exercise price payable upon the exercise of any option.

(H) Individual Limits

The maximum value of Shares over which Awards may be made to any employee is limited to 100 per cent. of his salary in any financial year of the Company.

(I) Dilution limit

Awards may be granted over unissued or existing Shares.

The number of new Shares that may be issued to satisfy Awards and options granted under PSP and all of the Company's other employee share plans will be restricted to 10 per cent. of the ordinary issued share capital of the Company over any 10 calendar year period. Additionally, a limit of 5 per cent. applies to all Awards and options granted over a 10 calendar year period to executives.

If Awards are to be satisfied by a transfer of existing Shares, the percentage limit stated above will not apply. In accordance with the current Association of British Insurers guidelines, the limits will apply to Awards satisfied by the transfer of treasury Shares.

Treasury Shares shall cease to count towards the limit if and when institutional investor guidelines cease to require such Shares to be so counted.

(J) **Rights attaching to Shares**

Shares issued or transferred under the PSP will rank equally alongside Shares then in issue (except for any right attaching to Shares by reference to a record date before the date of allotment). The Company will apply to the UK Listing Authority for the listing of any newly issued Shares.

(K) **Alteration of the PSP**

The Remuneration Committee may amend the PSP. However, the provisions governing eligibility requirements, equity dilution, individual award levels, the basis for determining participants' rights to acquire Shares or cash and the adjustments that may be made following a variation of capital cannot be altered to the advantage of participants without the prior approval of the Shareholders in general meeting. There is an exception for minor amendments to benefit the administration of the PSP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the PSP or for any member of the Group.

No alteration to the material disadvantage of participants may be made without the Board first inviting each participant to indicate whether they approve of the alteration and the alteration being approved by a majority of participants.

4.3 ***The Filtronic plc Employee Share Option Plan 2010***

(A) **General**

The ESOP is to be introduced for the purposes of motivating, retaining and recruiting key employees of the Group.

The operation of the ESOP will be overseen by the Remuneration Committee.

Awards granted under the ESOP will be market value options to acquire ordinary shares ("Options"). The Options may be granted as tax-advantaged Enterprise Management Incentives, where appropriate. The vesting of any Options granted to executives will be subject to performance conditions set and assessed by the Remuneration Committee.

Options under the ESOP may be satisfied by new shares issued at par, shares purchased in the market by an employees' trust or by the transfer of treasury shares.

Options under the ESOP may be granted by the Company (or the trustee of an employees' share trust), are not transferable (except on death) and are not pensionable benefits.

(B) **Eligibility**

Any employee of the Company or subsidiary is eligible to participate in the ESOP at the discretion of the Remuneration Committee.

(C) **Grants of Options**

Options under the ESOP may be granted:

- in the period of 42 days following the date of approval of the ESOP by shareholders;
- in the period of 42 days commencing on the dealing day following the day on which the Company announces its results for any period;
- in the period of 28 days following the date of the person to whom it is granted becoming eligible to participate; and

- subject to the Model Code and other relevant restrictions on dealings in shares, on any other day on which the Remuneration Committee determines that circumstances are exceptional.

No Options may be granted more than ten years following the date of approval by shareholders.

(D) Vesting of Options and Performance Targets

Options may be subject to performance targets which must be met for the options to become exercisable. Before each grant of options is made, performance targets may be determined by the Remuneration Committee.

The Remuneration Committee shall ensure that such performance targets as apply to any grant reflect the strategy and objectives of the Enlarged Group and in the case of executive awards are sufficiently stretching so as to align the interest of participants with Shareholders and to promote the long-term success of the Enlarged Group.

The Remuneration Committee may also vary the performance targets applying to existing Options if an event has occurred which causes the Remuneration Committee reasonably to consider that the performance targets should be amended to ensure that the objective criteria against which performance will then be measured will be a fairer measure of performance and/or any amended performance target will afford a more effective incentive to the participant, and provided the Remuneration Committee considers the varied targets are no more difficult to satisfy than were the original targets when set.

(E) Cessation of employment

If, before the end of any performance period applicable to his or her Option, a participant leaves the Group by reason of injury, disability, redundancy or the sale of a participant's employing business then either:-

- the Option may be retained and exercised within 6 months of the relevant vesting date in respect of a time-apportioned number of the Option Shares which vest (or have already vested), in accordance with any applicable performance target, on that vesting date (such number to be determined having regard to that part of the original vesting period which has then elapsed); or
- if the Remuneration Committee so determines, the Option may be exercised within 6 months of the date of cessation of employment in respect of a number of the Option Shares which shall be determined having regard to both the extent to which the relevant performance period has then elapsed and the extent to which any applicable performance targets are considered to be satisfied.

In either case, the Remuneration Committee will retain a discretion to permit exercise in respect of an additional number of Option Shares.

Similar rules will apply if a participant dies, with performance targets normally assessed at the date of death and exercise permitted within a 12 month period after death.

Where a participant leaves the Group for any other reason, an Option will only be exercisable if and to the extent permitted by the Remuneration Committee.

(F) Corporate events

In the event of a takeover of the Company during a performance period, an Option may vest subject to the application of any applicable performance target at the time of the takeover. The vesting of Option Shares on a takeover will also be subject to a time pro-rating requirement.

Additionally, in the event of a scheme of arrangement (not being an internal corporate reorganisation), a winding-up of the Company or (at the discretion of the Remuneration Committee) a demerger or similar event, a proportion of any unvested Option may vest, calculated on the same basis as for a takeover of the Company.

The Remuneration Committee (acting fairly and reasonably) also retains a discretion to adjust the application of time pro-rating in calculating vesting outcomes if it considers that the vesting outcome was not appropriate in a particular case.

(G) Variations of share capital

If there is any variation of the share capital of the Company or a demerger or a special dividend or other similar event which affects the market value of the shares to a material extent the Remuneration Committee may adjust the number of shares subject to Options, and the exercise price payable upon exercise.

(H) Dilution limit

Options may be granted over unissued or existing shares.

The number of new shares that may be issued to satisfy Options granted under the ESOP and options granted or awards made under all of the Company's other employee share plans will be restricted to 10 per cent. of the ordinary issued share capital of the Company over any 10 calendar year period. Additionally, a limit of 5 per cent. applies to all options granted or awards made to executives over a 10 calendar year period.

If Options are to be satisfied by a transfer of existing shares, the percentage limit stated above will not apply. In accordance with the current Association of British Insurers guidelines, the 10 per cent. limit will apply to Options satisfied by the transfer of treasury shares.

(I) Rights attaching to shares

Shares issued or transferred under the ESOP will rank equally alongside shares of the same class then in issue (except for any right attaching to shares by reference to a record date before the date of allotment). The Company will apply to the UK Listing Authority for the listing of any newly issued shares.

(J) Alteration of the ESOP

The Remuneration Committee may amend the ESOP. However, the provisions governing eligibility requirements, equity dilution, individual award levels, the basis for determining participants' rights to acquire shares and the adjustments that may be made following a variation of capital cannot be altered to the advantage of participants without the prior approval of the Company's shareholders in general meeting. There is an exception for minor amendments to benefit the administration of the ESOP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the ESOP or for any member of the Group.

5. Interests in Shares

5.1 *Interests of Directors and Senior Managers*

As at 27 October 2010, (being the latest practicable date prior to the publication of this document), the interests (all of which are beneficial unless otherwise stated) of the Directors and senior managers (as well as their immediate families) in the share capital of the Company or (so far as is known or could with reasonable due diligence be ascertained by the relevant Director or senior manager) interests or a person connected (within the meaning of Section 252 of the Companies Act) with a Director or senior manager and the existence of which was known to or could, with reasonable due diligence, be ascertained by the relevant Director or senior manager as at 27 October 2010:

<i>Director/Senior Manager</i>	<i>Number of Shares held prior to the Issue</i>	<i>Percentage of issued share capital held prior to the Issue (per cent.)</i>	<i>Proposed Number of Shares upon completion of the Issue</i>	<i>Proposed percentage of share capital held upon completion of the Issue (per cent.)</i>
Howard Ford	42,204	0.06	42,204	0.05
Hemant Mardia	159,813*	0.22	159,813	0.17
Reginald Gott	28,515**	0.04	28,515	0.03
Alan Needle	0	0	2,064,717	2.2
Graham Meek	120,000***	0.16	120,000	0.13

* This includes Shares held by Hemant Mardia's wife.

** This includes Shares held by Reginald Gott's wife.

*** This includes Shares held by Graham Meek's wife and children.

5.2 *Share options held by Directors and Senior Managers*

The following options over Ordinary Shares have been granted to Directors and senior managers under the Sharesave Plan:

<i>Director/Senior Manager</i>	<i>Options held at 27 October 2010</i>	<i>Exercise price per Share</i>	<i>Date from which exercisable</i>	<i>Expiry date</i>
Hemant Mardia	62,400†	25 pence	1 April 2012	1 October 2012
	8,841†	34.2 pence	1 November 2013	1 May 2014
Mike Brennan	26,315	34.2 pence	1 November 2013	1 May 2014

† This includes options granted to Hemant Mardia's wife.

In addition the following awards to Directors and senior managers have been made under the PSP:

<i>Director/Senior Manager</i>	<i>Awards under PSP at 27 October 2010</i>	<i>Vesting dates of outstanding Awards under PSP</i>
Hemant Mardia	373,939††	29 July 2012
Mike Brennan	108,108	2 September 2012
TOTAL	482,047	

†† This includes PSP awards granted to Hemant Mardia's wife.

6. Substantial Shareholders

Save as disclosed below, the Company is not aware of any person who, directly or indirectly, was, as at 27 October 2010 (being the latest practicable date before the publication of this document) interested in three per cent. or more of the current issued ordinary share capital of the Company:

	<i>Number of Ordinary Shares</i>	<i>% of issued share capital</i>	<i>% of issued share capital immediately after the Issue¹</i>
Aberforth Partners LLP	15,572,969	21.0	16.8
Prudential plc	10,872,820	14.6	11.7
Gartmore Investment Limited	8,262,967	11.0	8.9
Aviva plc	5,542,228	7.5	6.0
Legal & General Investment Management Limited	3,847,904	5.2	4.1
Railway Pension Trustee Company Limited	2,524,600	3.4	2.7
	<u>46,623,488</u>	<u>62.7</u>	<u>50.2</u>

1 Assuming no further acquisitions or disposals by any party (other than the issue of the Consideration Shares).

The Shareholders detailed in the above table do not have different voting rights from those of the other Shareholders.

The Directors are not aware (i) of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control or ownership over the Company, nor (ii) of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

7. Memorandum and Articles of Association of the Company

7.1 Memorandum of Association

On 24 September 2010 the Company removed the Company's memorandum of association by special resolution, which by virtue of the Companies Act are to be treated as the Articles.

7.2 Articles of Association

The following is a summary of the rights and provisions in the articles of association of the Company relating to the Shares generally:-

(A) Voting Rights

On a show of hands every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member entitled to vote, shall have one vote, and on a poll every member shall have one vote for every share of which he is the holder.

In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names of the holders stand in the Register in respect of the joint holding.

A member in respect of whom an order has been made by any court having jurisdiction (whether in the United Kingdom or elsewhere) in matters concerning mental disorder may vote, whether on a show of hands or on a poll, and otherwise exercise all his rights as a member by his receiver or other person authorised in that behalf appointed by that court, and any such receiver or other person may, on a poll, vote by proxy. Evidence to the satisfaction of the Board of the authority of the person claiming to exercise the right to vote or act shall be deposited at the Office, or at such other place as is specified in accordance with the Articles for the deposit of instruments of proxy, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the right to vote is to be exercised, or, in the case of a

poll, at least 48 hours before the time appointed for the taking of the poll and in default the right to vote shall not be exercisable.

Unless the Board otherwise determines, no member shall attend or vote at any general meeting or at any separate meeting of the holders of any class of shares in the Company or upon a poll, either in person or by proxy, in respect of any share held by him or exercise any other right or privilege conferred by membership in relation to any such meeting or poll unless all moneys presently payable by him in respect of that share have been paid.

No objection shall be raised to the qualification of any voter except at the meeting or adjourned meeting or poll at which the vote objected to is tendered, and every vote not disallowed at the meeting or poll shall be valid. Any objection made in due time shall be referred to the chairman of the meeting whose decision shall be final and conclusive.

(B) Variation of Class rights

Whenever the capital of the Company is divided into different classes of shares, the rights attached to any class of shares in issue may (unless otherwise provided by the terms of issue of the shares of that class) from time to time be varied or abrogated, whether or not the Company is being wound up, either with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of such holders (but not otherwise).

The special rights conferred upon the holders of any shares or class of shares shall, unless otherwise provided by the Articles or the terms of issue of the shares concerned, be deemed to be varied by a reduction of capital paid up on those shares but shall be deemed not to be varied by the creation or issue of further shares ranking *pari passu* with them or subsequent to them. The special rights conferred on the holders of ordinary shares shall be deemed not to be varied by the creation or issue of any further shares ranking in priority to them nor shall any consent or sanction of the holders of ordinary shares be required to any variation or abrogation effected by a resolution on which only the holders of ordinary shares are entitled to vote.

(C) General Meetings

Unless consent to short notice is obtained in accordance with the provisions of the Companies Act, an annual general meeting shall be called by at least 21 clear days' notice. All general meetings shall be called by at least 14 clear days' notice. Subject to the provisions of the Articles and to any restrictions imposed on any shares, every notice of meeting shall be given to all the members, all other persons who are at the date of the notice entitled to receive notices from the Company and to the Directors and Auditors.

Every notice of meeting shall specify the place, the day and the time of the meeting and, in the case of special business, the general nature of the business to be transacted and, in the case of an annual general meeting, shall specify the meeting as such. Every notice calling a meeting for the passing of a special resolution shall specify the intention to propose the resolution as a special resolution and the terms of the resolution. Every notice of meeting shall state with reasonable prominence that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a member.

The accidental omission to give notice of a meeting, or to send an instrument of proxy or invitation to appoint a proxy as provided by the Articles, to any person entitled to receive the same, or the non-receipt of a notice of meeting or instrument of proxy or invitation to appoint a proxy by such a person, shall not invalidate the proceedings at that meeting.

(D) Transfer of Shares

A share held in certificated form may be transferred by an instrument of transfer in any usual form or in any other form which the Board may approve, which shall be executed by or on

behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. A share held in uncertificated form may be transferred by means of a relevant system. The transferor shall be deemed to remain the holder of the share until the transferee is entered on the Register as its holder.

The Board may, in the case of shares held in certificated form, in its absolute discretion refuse to register the transfer of a share which is not fully paid provided that, where any such shares are admitted to the Official List, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis.

The Board may also refuse to register a transfer of shares held in certificated form unless the instrument of transfer is:

- duly stamped or duly certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty, lodged at the Transfer Office or at such other place as the Board may appoint and (save in the case of a transfer by a person to whom no certificate was issued in respect of the shares in question) accompanied by the certificate for the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do;
- in respect of only one class of shares; and
- in favour of not more than four transferees.

If the Board refuses to register a transfer of shares held in certificated form, it shall as soon as practicable and in any event within two months after the date on which the transfer was lodged with the Company send to the transferee notice of the refusal together with its reasons for the refusal.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to any share or for making any entry in the Register affecting the title to any share.

The Company shall be entitled to retain any instrument of transfer which is registered, but any instrument of transfer which the Board refuses to register shall be returned to the person lodging it when notice of the refusal is given.

For all purposes of the Articles relating to the registration of transfers of shares, the renunciation of the allotment of any shares by the allottee in favour of some other person shall be deemed to be a transfer and the Board shall have the same powers of refusing to give effect to such a renunciation as if it were a transfer.

(E) Directors

(a) Number of Directors:

Unless otherwise determined by ordinary resolution of the Company the number of Directors shall not be subject to any maximum but shall not be less than two.

(b) Appointment and retirement of Directors:

Each Director shall retire from office and shall be eligible for reappointment at the third annual general meeting after the general meeting at which he was appointed or last reappointed. If the Company, at the meeting at which a Director retires does not fill the vacancy the retiring Director shall, if willing to act, be deemed to have been reappointed unless at the meeting it is resolved not to fill the vacancy or unless a resolution for the reappointment of the Director is put to the meeting and lost.

A Director retiring at a meeting who is not reappointed shall retain office until the meeting appoints someone in his place or, if it does not do so, until the end of the meeting or of any adjournment thereof.

No Director shall vacate or be required to vacate his office as a Director on or by reason of his attaining or having attained the age of 70 or any other age, and any Director retiring or liable to retire under the provisions of the Articles and any person proposed to be appointed a Director shall be capable of being appointed or reappointed notwithstanding that he has attained the age of 70 or any other age and no special notice need be given of any resolution for the appointment or reappointment as a Director of a person who shall have attained the age of 70 or any other age.

No person other than a Director retiring at the meeting shall be appointed or reappointed a Director at any general meeting unless:

- he is recommended by the Board; or
- not less than seven nor more than 21 clear days before the date appointed for the meeting, notice executed by a member qualified to vote at the meeting has been given to the Company of his intention to propose that person for appointment or reappointment stating the particulars which would, if he were so appointed or reappointed, be required to be included in the Company's register of directors together with notice executed by that person confirming his willingness to be appointed or reappointed.

Subject to the provisions of the Articles, the Company may by ordinary resolution appoint a person who is willing to act to be a Director either to fill a vacancy or as an additional Director. Such a Director will hold office only until the next AGM where he shall retire and be eligible for reappointment.

The Board may appoint a person who is willing to act to be a Director, either to fill a vacancy or as an additional Director. A Director so appointed shall hold office only until the next following annual general meeting when he shall retire from office and be eligible for reappointment. If not reappointed at such annual general meeting, he shall vacate office at its conclusion.

(c) Executive and Associate Directors:

Subject to the provisions of the Companies Act, the Board may:

- appoint one or more of its body to the office of managing director or chief executive or to any other executive office (except that of auditor) of the Company and may enter into an agreement or arrangement with any Director for his employment by the Company or any subsidiary undertaking or for the provision by him of any services outside the scope of the ordinary duties of a Director. Any such appointment, agreement or arrangement may be made upon such terms as the Board determines and it may remunerate any such Director for his services as it thinks fit; and
- permit any person appointed to be a Director to continue in any other office or employment held by him with the Company or any subsidiary undertaking before he was so appointed.

Any appointment of a Director to the office of managing director or chief executive shall terminate if he ceases to be a Director but without prejudice to any claim for damages for breach of contract of service between the Director and the Company and he shall not (unless any agreement between him and the Company shall otherwise provide) cease to

hold his office as Director by reason only of his ceasing to be managing director or chief executive.

Save as provided above, an Executive Director shall not (unless any agreement between him and the Company shall otherwise provide) cease to hold his office or employment with the Company by reason only of his ceasing to be a Director nor cease to be a Director if he ceases from any cause to hold the office or employment by virtue of which he is termed an Executive Director.

The emoluments and benefits of any Executive Director for his services as such shall be determined by the Board and may be of any description, and (without limiting the generality of the foregoing) may include membership of any scheme or fund instituted or established or financed or contributed to by the Company for the provision of pensions, life assurance or other benefits for employees or their dependants or, apart from membership of any such scheme or fund, the payment of a pension or other benefits to him or his dependants on or after retirement or death.

The Board may delegate or entrust to and confer upon any Executive Director any of the powers, authorities and discretions exercisable by it (with power to sub-delegate) upon such terms and conditions and with such restrictions as it thinks fit and either collaterally with or to the exclusion of its own powers and may from time to time revoke, withdraw or vary all or any part of such powers.

The Board may at any time and from time to time appoint any person to be an associate director having such title, including the word “director”, as the Board may decide and may at any time remove any person so appointed. A person so appointed shall not be a Director of the Company and shall not be a member of the Board. Subject as aforesaid, the Board may define and limit the powers and duties of any associate director and may determine his remuneration which may be in addition to any other remuneration receivable by him from the Company or any subsidiary undertaking.

(d) Removal of Directors:

In addition to any power of removal conferred by the Companies Act, the Company may by special resolution remove any Director before the expiration of his period of office. Such removal shall be without prejudice to any claim such Director may have for damages for breach of any contract of service between him and the Company.

The office of a Director shall be vacated if:

- that person ceases to be a director by virtue of any provision of the Companies Act or the Articles or is prohibited from being a Director by law;
- a bankruptcy order is made against that person;
- a composition is made with that person’s creditors generally in satisfaction of that person’s debts;
- a registered medical practitioner who is treating that person gives a written opinion to the Company stating that that person has become physically or mentally incapable of acting as a Director and may remain so for more than three months;
- by reason of that person’s mental health, a court makes an order which wholly or partly prevents that person from personally exercising any powers or rights which that person would otherwise have;

- notification is received by the Company from the Director that the Director is resigning from office, and such resignation has taken effect in accordance with its terms;
- he is convicted of a criminal offence (other than a motoring offence or series of offences not resulting in disqualification) and the Directors resolve that his office be vacated; or
- in the case of a person who is also an employee of the Company he ceases to be such an employee; or
- he shall for more than six consecutive months have been absent without permission of the directors from meetings of directors held during that period and the directors resolve that his office be vacated; or
- all the other Directors unanimously resolve that his office be vacated.

(e) Alternate Directors:

Any Director may appoint any other Director, or any other person approved by resolution of the Board and willing to act, to be an Alternate Director and may remove from office an Alternate Director so appointed by him.

The appointment of an Alternate Director shall automatically determine in any of the following events:

- if his appointor terminates the appointment;
- on the happening of any event which, if he were a Director, would cause him to vacate the office of Director;
- if he resigns his appointment by notice to the Company;
- if his appointor ceases for any reason to be a Director otherwise than by retiring and being reappointed or deemed to be reappointed at the meeting at which he retires; or
- if he is not a Director and the Board revokes its approval of him by resolution.

An Alternate Director shall (subject to his giving to the Company an address within the United Kingdom at which notices may be served upon him) be entitled at his appointor's request to receive notice of all meetings of the Board and of all meetings of committees of the Board of which his appointor is a member, to attend and vote and (save as provided in the Articles) be counted in the quorum at any such meeting at which the Director appointing him is not personally present, and generally to perform all the functions of his appointor as a Director in his absence.

An Alternate Director may be repaid by the Company such expenses as might properly have been repaid to him if he had been a Director and in respect of his office of Alternate Director may receive such remuneration from the Company as the Board may determine. An Alternate Director shall be entitled to be indemnified by the Company to the same extent as if he were a Director.

An Alternate Director shall, during his appointment, be an officer of the Company and shall alone be responsible for his own acts and defaults and he shall not be deemed to be the agent of the Director appointing him.

Any appointment or removal of an Alternate Director shall be in writing signed by the Director making or revoking the appointment or in any other manner approved by the Board and shall take effect (subject to any approval required by the Articles) upon

receipt of such written appointment or removal at the Office or by the Secretary or at an address specified by the Company for the purpose of communication by electronic means.

A Director or any other person may act as Alternate Director to represent more than one Director and an Alternate Director shall be entitled at meetings of the Board or any committee of the Board to one vote for every Director whom he represents in addition to his own vote (if any) as a Director.

(f) Proceedings of the Directors and committees:

Subject to the provisions of the Articles, the Board may regulate its proceedings as it thinks fit. A Director may, and the Secretary at the request of a Director shall, call a meeting of the Board. Notice of a board meeting may be given to a director personally or by word of mouth or sent by instrument to him at such address as he may from time to time specify for this purpose (or if he does not specify an address, at his last known address) or sent in electronic form to such address (if any) as may for the time being be notified by him or on his behalf to the Company for that purpose. A Director absent or intending to be absent from the United Kingdom may request the Board that notices of board meetings shall during his absence be given by instrument or in electronic form to him (or to his alternate) at an address given by him to the Company for this purpose, but if no such request is made it shall not be necessary to give notice of a board meeting to any Director who is for the time being absent from the United Kingdom. A Director may waive notice of any meeting either prospectively or retrospectively.

Questions arising at a meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

The quorum for the transaction of the business of the Board may be fixed by the Board and unless so fixed at any other number shall be two. A person who holds office as an Alternate Director shall, if his appointor is not present, be counted in the quorum provided that a Director or Alternate Director who attends a meeting of the Board shall for the purposes of a quorum be counted as one person notwithstanding that he also attends such meeting as an Alternate Director or that he attends as an Alternate Director appointed by more than one Director.

Any Director or other person may participate in a meeting of the Board by means of conference telephone or similar communications equipment whereby all persons participating in the meeting can hear each other and any person participating in the meeting in this manner shall be deemed to be present in person at that meeting. Such a meeting shall be deemed to take place where the largest group of those participating is assembled, or, if there is no such group, at the place where the chairman of the meeting is at the time the meeting is held.

The continuing Directors or a sole continuing Director may act notwithstanding any vacancies in the Board but, if the number of Directors is less than the number fixed as the quorum, the continuing Directors or Director may act only for the purpose of filling vacancies in the Board or of calling a general meeting.

The Board may appoint one of its number to be the chairman of the Board and one or more deputy chairmen and may at any time remove them from office. Unless he is unwilling to do so, the chairman of the Board shall preside at every meeting of the Board at which he is present. But if there is no chairman of the Board or deputy chairman holding office, or if at any meeting neither the chairman of the Board nor a deputy chairman is present and willing to preside within five minutes after the time appointed for the meeting, the Directors present may appoint one of their number to be chairman of the meeting.

A resolution in writing signed by all the Directors entitled to receive notice of a meeting of the Board (not being less than the number required to form a quorum of the Board) or all members of a committee of the Board shall be as valid and effectual as if it had been passed at a meeting of the Board or (as the case may be) a committee of the Board duly convened and held and may consist of several documents in hard copy form and/or sent by electronic means in the like form each signed by one or more Directors; but a resolution signed by an Alternate Director need not also be signed by his appointor and, if it is signed by a Director who has appointed an Alternate Director, it need not be signed by the Alternate Director in that capacity.

All acts done by a meeting of the Board, or of a committee of the Board, or by a person acting as a Director, Alternate Director or member of a committee shall, notwithstanding that it be afterwards discovered that there was a defect in the appointment or continuance in office of any Director, Alternate Director or person acting as aforesaid, or that any of them were disqualified from holding office, or had vacated office, or were not entitled to vote, be as valid as if every such person had been duly appointed and was qualified and had continued to be a Director, Alternate Director or member of a committee and had been entitled to vote.

(g) Remuneration of Directors:

The aggregate ordinary remuneration of the Directors (other than any Executive Directors) shall be such amount as the Directors shall from time to time determine provided that, unless otherwise approved by the Company in general meeting, the aggregate of the ordinary remuneration of such Directors shall not exceed £250,000 per year. The ordinary remuneration shall be divided among such Directors in such manner as the Directors may determine. A Director holding office for part only of a year shall be entitled to a proportionate part of a full year's remuneration.

Any Director who serves on any committee of the Board or, by request of the Board, performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Board may determine.

(h) Pension and other benefits:

The Board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any Director who has held but no longer holds any executive office or employment with the Company or with any body corporate which is or has been a subsidiary undertaking or a predecessor in business of the Company or of any subsidiary undertaking, and for any member of his family (including a spouse and a former spouse) or any person who is or was dependent on him and may (as well before as after he ceases to hold such office or employment) contribute to any fund and pay premiums for the purchase or provision of any such benefit.

(i) Directors' interests:

A Director who is in any way, directly or indirectly, interested in a proposed transaction or arrangement with the Company must declare, in accordance with the Companies Act, the nature and extent of his interest to the other Directors.

A Director who is in any way, directly or indirectly, interested in a transaction or arrangement that has been entered into by the Company must declare, in accordance with the Companies Act, the nature and extent of his interest to the other Directors unless the interest has already been declared above.

For the purposes of Articles 116 and 117:

- the declaration of interest must be made at a meeting of the Directors or by notice in writing to the Directors in accordance with section 184 of the Companies Act or by general notice in accordance with section 185 of the Companies Act;
- if the declaration proves to be or becomes inaccurate or incomplete, a further declaration must be made;
- a declaration in respect of a proposed transaction or arrangement must be made before the Company enters into the transaction or arrangement;
- a declaration in respect of an existing transaction or arrangement must be made as soon as is reasonably practicable;
- a declaration of an interest of which the director is not aware or where the director is not aware of the transaction or arrangement in question is not required; and
- an interest of a person who is connected with a Director shall be treated as an interest of the Director.

A Director need not declare an interest under the Articles:

- if it cannot reasonably be regarded as likely to give rise to a conflict of interest;
- if, or to the extent that, the other Directors are already aware of it (and for this purpose the other Directors are treated as aware of anything of which they ought reasonably to be aware); or
- if, or to the extent that, it concerns terms of his service contract that have been or are to be considered:
- by a meeting of the Directors; or
- by a committee of the Directors appointed for the purpose under the Articles.

Subject to the provisions of the Companies Act, and provided that he has disclosed to the Board the nature and extent of any interest of his in accordance with the Articles, a Director notwithstanding his office:

- may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested;
- may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested; and
- shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit.

Any Director may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

- (j) A Director shall not vote at a meeting of the Board or of a committee of the Board on any resolution concerning a matter in which he has, directly or indirectly, an interest which is material (otherwise than by virtue of his interest in shares, debentures or other securities of, or otherwise in or through, the Company) unless his interest or duty arises only because the case falls within one or more of the following paragraphs:

- the resolution relates to the giving to him or a person connected with him of a guarantee, security or indemnity in respect of money lent to, or an obligation incurred by him or such a person at the request of or for the benefit of, the Company or any subsidiary undertaking;
- the resolution relates to the giving to a third party of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any subsidiary undertaking for which the Director or a person connected with him has assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- his interest arises by virtue of him or a person connected with him subscribing or agreeing to subscribe for any shares, debentures or other securities of the Company or any subsidiary undertaking or by virtue of him or a person connected with him being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any such shares, debentures, or other securities by the Company or any subsidiary undertaking for subscription, purchase or exchange;
- the resolution relates in any way to any other company in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in Part 22 of the Companies Act) representing one per cent or more of any class of the equity share capital of such company or of the voting rights available to members of such company (excluding any shares in the Company held as treasury shares and any voting rights attached thereto);
- the resolution relates in any way to an arrangement in whole or in part for the benefit of the employees of the Company or any subsidiary undertakings which does not award him as such any privilege or advantage not generally awarded to the employees to whom such arrangement relates;
- the resolution relates in any way to the purchase or maintenance for the Directors of insurance against any liability which by virtue of any rule of law would otherwise attach to all or any of them in respect of any negligence, default, breach of duty or breach of trust in relation to the Company or any subsidiary undertaking.

A Director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or a body corporate in which the Company is interested the proposals may be divided and considered in relation to each Director separately and (provided he is not for another reason precluded from voting) each of the Directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

If a question arises at a meeting of the Board or of a committee of the Board as to the right of a Director to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, the question may (unless the Director concerned is the chairman of the meeting in which case he shall withdraw from the meeting and the Board shall elect a vice chairman to consider the question in place of the chairman), before the conclusion of the meeting, be referred to the chairman of the meeting and his ruling in relation to any Director other than himself shall be final and conclusive except in a case where the nature or extent of

the interest of the Director concerned has not been fairly disclosed and provided that any such question shall, for the purposes of disclosure of the interest in the accounts of the Company, be finally and conclusively decided by a majority of the Board (other than the Director concerned).

(k) **Indemnity of Directors:**

Subject to the provisions of the Companies Act but without prejudice to any indemnity to which he may otherwise be entitled, every Director, Alternate Director, Secretary or other officer (other than the Auditor) of the Company or of any associated company shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses, damages and liabilities ("Liabilities") incurred by him in or about the execution of his duties or the exercise of his powers or otherwise in relation thereto and, where the Company is a trustee of an occupational pension scheme, against all Liabilities incurred in connection with the Company's activities as a trustee of the pension scheme, including (without prejudice to the generality of the foregoing) any liability incurred by him in defending any proceedings, whether civil, criminal or regulatory which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of the Company or of any associated company in which judgment is given in his favour or in which he is acquitted, or which are otherwise disposed of without any finding or admission of material breach of duty on his part or in connection with any application in which relief is granted to him by the court from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

(F) **Borrowing Powers**

The Board shall restrict the borrowings of the Company, and shall so far as possible by the exercise of the Company's voting rights in and other rights or powers of control over its subsidiary undertakings secure that they restrict their borrowings, so that the aggregate principal amount at any time outstanding in respect of money borrowed by the Group shall not without the previous sanction of an ordinary resolution of the Company exceed a sum equal to three times the adjusted share capital and reserves.

(G) **Dividends and distributions to Shareholders**

Subject to the provisions of the Companies Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board.

Except as otherwise provided by the rights attached to the shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid but (for the purposes of this Article only) no amount paid on a share in advance of calls shall be treated as paid on the share. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but, if any share is issued on terms providing that it shall rank for dividend as from a particular date, that share shall rank for dividend accordingly.

Subject to the provisions of the Companies Act, the Board may pay interim dividends if it appears to the Board that they are justified by the profits of the Company available for distribution. If the share capital is divided into different classes of shares, the Board may pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividend as well as on shares which confer preferential rights with regard to dividend, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears. The Board may also pay at intervals settled by it any dividend payable at a fixed rate if it appears to it that the profits available for distribution justify the payment. Provided the Board acts in good faith the Directors shall not incur any liability to the holders of shares conferring preferred rights for any loss that they may

suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights. Dividends may be declared or paid in any currency.

The Board may deduct from any dividend or other moneys payable on or in respect of a share to any member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in relation to shares of the Company.

No dividend or other moneys payable in respect of a share shall bear interest as against the Company unless otherwise provided by the rights attached to the share. All unclaimed dividends may be retained by the Company or invested or made use of by the Company as the Board may think fit until they are claimed and so that the Company shall not be obliged to account for any interest or other income derived from them nor shall it be constituted a trustee in respect of them or be responsible for any loss thereby arising. Any interest or profits earned on unclaimed dividends invested or otherwise made use of shall belong to the Company. Any dividend which has remained unclaimed for twelve years from the date when it became due for payment shall be forfeited and cease to remain owing by the Company.

Without prejudice to any rights attached to any shares, the Company or the Board may fix a date, or a particular time on a date, as the record date by reference to which a dividend will be declared or paid or a distribution, allotment or issue made, and that date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared, paid or made. In the absence of a record date being fixed, entitlement to any dividend, distribution, allotment or issue shall be determined by reference to the date on which the dividend is declared or the distribution, allotment or issue is made.

The Board may pay the dividends or other moneys payable on shares in respect of which any person is entitled to be registered as holder by transmission to such person upon production of such evidence as would be required if such person desired to be registered as a member in respect of such shares.

Any dividend or other moneys payable in respect of a share may be paid:

- in cash;
- by cheque or warrant sent by post to the address in the Register of the person entitled to the moneys or, if two or more persons are the holders of the share or are jointly entitled to it by reason of the death or bankruptcy of the holder or otherwise by operation of law, to the address in the Register of that one of those persons who is first named in the Register in respect of the joint holding or to such person and to such address as the person or persons entitled to the moneys may in writing direct. Every such cheque or warrant shall be made payable to the person or persons entitled to the moneys or to such other person as the person or persons so entitled may in writing direct and shall be sent at the risk of the person or persons so entitled. Any such cheque or warrant may be crossed "account payee" although the Company shall not be obliged to do so;
- by bank transfer to such account (of a type approved by the Board) as the person or persons entitled to the moneys may in writing direct; or
- by such other method of payment approved by the Board as the person or persons entitled to the moneys may in writing agree to.

Payment of a cheque or warrant by the bank on which it was drawn or the transfer of funds by the bank instructed to make the transfer shall be a good discharge to the Company.

If in respect of dividends or other moneys payable in respect of any shares cheques or warrants have been sent through the post in accordance with the provisions of the preceding article but have been returned undelivered or left uncashed during the periods for which they are valid or bank transfers or other methods of payment have failed either:

- on two consecutive occasions; or
- on any one occasion and reasonable enquiries have failed to establish another address or account of the person entitled to the moneys,
- the Company need not thereafter despatch further cheques or warrants or give instructions for bank transfers or other methods of payment in payment of dividends or other moneys payable on or in respect of the shares in question until the member or other person entitled thereto shall have communicated with the Company and supplied in writing to the Transfer Office a new address or account to be used for the purpose.

Any general meeting declaring a dividend may, upon the recommendation of the Board, direct payment or satisfaction of such dividend wholly or in part by the distribution of specific assets and in particular of fully paid shares or debentures of any other company, and the Board shall give effect to such directions. Where any difficulty arises in regard to the distribution, the Board may settle the same as it thinks expedient, and in particular may fix the value for distribution of such specific assets or any part thereof and may determine that cash payment shall be made to any members upon the footing of the value so fixed in order to adjust the rights of those entitled to participate in the dividend, and may vest any such specific assets in trustees, upon trust for the members entitled to the dividend, as may seem expedient to the Board.

The Board may, with the sanction of an ordinary resolution of the Company, offer the holders of shares the right to elect to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the Board) of such dividend or dividends as are specified by such resolution. The following provisions shall apply:

- the resolution may specify a particular dividend, or may specify all or any dividends declared or paid within a specified period, but such period shall end not later than the beginning of the annual general meeting in the fifth year following that in which such resolution is passed;
- the entitlement of each holder of shares to new shares shall be such that the value of such new shares shall be as nearly as possible equal to (but not in excess of) the cash amount that such holder would otherwise have received by way of dividend. For this purpose the value of a share shall be the average of the middle market quotations for such a share as derived from the London Stock Exchange Daily Official List on such five consecutive dealing days as the Directors shall determine provided that the first of such dealing days shall be on or after the day when the shares are first quoted “ex” the relevant dividend;
- no fraction of a share may be allotted and the Board may make such provision as it thinks fit for any fractional entitlements including provision:
- for the whole or part of the benefit of fractional entitlements to be disregarded or to accrue to the Company; or
- for the value of fractional entitlements to be accumulated on behalf of a member (without entitlement to interest) and applied in paying up new shares in connection with a subsequent offer by the Company of the right to receive shares instead of cash in respect of a future dividend;
- the Board, after determining the basis of allotment, shall notify the holders of shares in writing of the right of election offered to them and (except in the case of any holder from whom the Company has received written notice in such form as the Board may require which is effective for the purposes of the relevant dividend that such holder wishes to receive shares instead of cash in respect of all future dividends in respect of which the Board offers the holders of shares the right to elect to receive shares as aforesaid) shall send with, or following, such notification, forms of election and specify the procedure

to be followed and the place or address at which, and the latest date and time by which, duly completed forms of election must be received in order to be effective;

- the dividend (or that part of the dividend in respect of which a right of election has been offered) shall not be payable on shares in respect of which such election has been duly made (the “elected shares”) and instead additional shares shall be allotted to the holders of the elected shares on the basis of allotment determined as provided above. For such purpose the Board shall capitalise out of such of the sums standing to the credit of reserves (including any share premium account or capital redemption reserve) or any of the profits which could otherwise have been applied in paying dividends in cash as the Board may determine a sum equal to the aggregate nominal amount of the additional shares to be allotted on such basis and shall apply the same in paying up in full the appropriate number of unissued shares for allotment and distribution to and amongst the holders of the elected shares on such basis;
- the additional shares so allotted shall rank *pari passu* in all respects with the fully-paid shares of that class then in issue save only as regards participation in the relevant dividend; and
- the Board may on any occasion determine that rights of election shall only be made available subject to such exclusions, restrictions or other arrangements as it may in its absolute discretion deem necessary or desirable in order to comply with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory.

If several persons are entered in the Register as joint holders of any share or are jointly entitled to a share, any one of them may give receipts for any dividend or other moneys payable in respect of the share and the Board may deduct from the dividends or other moneys payable in respect of any share held jointly by several persons all sums of money (if any) presently payable to the Company from any one or more of the registered holders on account of calls or otherwise in relation to shares in the Company held in the joint names of all (but not some only) of such registered holders.

(H) Winding-up

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Act, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he with the like sanction determines, but no member shall be compelled to accept any assets upon which there is a liability.

(I) Disclosure of interest in Shares.

The Disclosure and Transparency Rules require Shareholders to notify the Company if the voting rights held by such Shareholder (including by way of a certain financial instrument) reaches, exceeds or falls below 3 per cent., 4 per cent., 5 per cent., 6 per cent., 7 per cent., 8 per cent., 9 per cent., 10 per cent. and each 1 per cent. threshold thereafter up to 100 per cent.

Pursuant to the Companies Act, the Company may also send a notice to any person whom the Company knows or believes to be interested in the Company’s requiring that person to confirm whether he has such an interest and if so, details of that interest.

Under the Articles and the Companies Act, if a person fails to provide the Company with the information required by the notice within the time specified, or information provided happens to be false (whether deliberate or reckless) in respect of any shares (the “default shares”) the Company’s directors may serve a restriction notice on such person. Such a restriction notice

will state that the default shares held by that person shall not confer any right to attend or vote at any general meeting of the Company, or separate meeting of the holders of any class of shares, and certain other sanctions may also apply.

8. Service agreements and remuneration of the Directors

8.1 *Executive Directors*

The Company has entered into the following contracts with its executive Directors:

An agreement dated 8 October 2008 between the Company and Hemant Mardia pursuant to which Hemant Mardia agrees to serve as Chief Executive of the Company and for the time being as managing director of Filtronic Broadband Limited. Under the agreement Hemant Mardia is entitled to £180,250 per annum (inclusive of any remuneration received or receivable by him in respect of any other office or employment with the Group) and certain other benefits. The agreement is terminable by the Company or Hemant Mardia on twelve months' notice. The Company can terminate Hemant Mardia's employment forthwith on payment to Hemant Mardia in lieu of all or any part of the notice period a sum equal to his basic salary. The agreement entitles Hemant Mardia to join the Filtronic plc Stakeholder (defined contributions) Scheme and the Company current contribution to such Scheme is an amount equivalent to 8% of Hemant Mardia's gross salary per annum. In certain circumstances (for example in the event of material breach, gross misconduct, disqualification, criminal conviction, bankruptcy, drug addiction or mental illness) the Company has the right to terminate his employment via summary dismissal. The agreement also includes an express duty of confidence and restrictive covenants following termination including, inter alia, a prohibition for a period of twelve months following termination on working for a competitor of the Company (or its subsidiaries).

An agreement dated 1 September 2009 between the Company and Mike Brennan pursuant to which Mike Brennan agrees to serve as Chief Financial Officer of the Company. Under the agreement Mike Brennan is entitled to £100,000 per annum (inclusive of any remuneration received or receivable by him in respect of any other office or employment with the Group) and certain other benefits. The agreement is terminable by the Company or Mike Brennan on six months' notice. The Company can terminate Mike Brennan's employment forthwith on payment to Mike Brennan in lieu of all or any part of the notice period a sum equal to his basic salary. The agreement entitles Mike Brennan to join the Filtronic plc Stakeholder (defined contributions) Scheme and the Company current contribution to such Scheme is an amount equivalent to 8% of Mike Brennan's gross salary per annum. In certain circumstances (for example in the event of material breach, gross misconduct, disqualification, criminal conviction, bankruptcy, drug addiction or mental illness) the Company has the right to terminate his employment via summary dismissal. The agreement also includes an express duty of confidence and restrictive covenants following termination including, inter alia, a prohibition for a period of twelve months following termination on working for a competitor of the Company (or its subsidiaries).

8.2 *Non-Executive Directors*

The Company has entered into letters of appointment in respect of the provision to the Company of the services of the following non-executive Directors:

A letter of appointment with Howard Ford dated 10 June 2009 in the role of non-executive chairman of the Company. This appointment was for an initial term of one year but anticipated to be renewed annually up to a maximum of five times commencing on 19 September 2009 unless terminated by six months prior written notice. Howard Ford is currently entitled to an annual fee of £70,000.

A letter of appointment with Graham Meek as consultant for Trumper Hill Limited dated 20 April 2005 and, pursuant to the letter, appointed as a non-executive director of the Company. This appointment is to be renewed as per the Articles unless terminated by three months prior written notice. Trumper Hill is currently entitled to receive, for the services of Graham Meek, a gross annual fee of £40,000.

A letter of appointment with Reginald Gott dated 7 August 2006 in the role of non-executive director of the Company. This appointment is subject to the retirement by rotation provisions in the Articles and employment was deemed commenced on 13 July 2006 and may be terminated by three months' prior written notice. Reginald Gott is currently entitled to a gross annual fee of £40,000.

8.3 **Remuneration**

The amount of remuneration paid to the Directors and senior managers (including any contingent or deferred compensation) and benefits in kind granted to the Directors and senior managers by the Company or any member of the Group during FY10 was, on an individual basis, as follows:

	<i>Basic salary/fees £'000</i>	<i>Bonus accrued £'000</i>	<i>Benefits in kind/ allowance £'000</i>	<i>Total for year ended 31.05.10 £'000</i>
Executive Directors				
Hemant Mardia	180	27	18	225
Mike Brennan ¹	75	15	5	95
Non Executive Directors				
Howard Ford	57		1	58
Graham Meek	39			39
Reginald Gott	39			39

The above figures do not include amounts in respect of (i) the value of shares options granted to or held by the Directors, further details of which are contained at paragraph 5.2 of this Part X; or (ii) Directors' pension entitlements, further details of which are contained in paragraph 8.4 of this Part X.

¹ Engaged on 1 September 2009

8.4 **Directors' Pension Entitlements**

Contributions paid by the Company directly to the Directors or their nominated retirement investment vehicles in respect of their retirement benefit entitlements in the year ended 31 May 2010 were as follows:

	<i>Total for year ended 31.05.10 £'000</i>
Executive Directors	
Hemant Mardia	14
Mike Brennan	6
Non Executive Directors	
Howard Ford	—
Graham Meek	—
Reginald Gott	—

8.5 **General**

Save as set out in this paragraph 8, there are no existing contracts between any of the Directors and any member of the Group. The total emoluments receivable by the Directors will not be varied as consequence of the Acquisition.

The Company has entered into an agreement with Alan Needle, conditional on and subject to Completion, pursuant to which Alan Needle agrees, subject to Completion, to serve as a director of the Company and as Managing Director of the wireless telecoms business of Isotek Electronics Limited. Under the agreement, Alan Needle shall be entitled to £100,000 per annum (inclusive of any remuneration received or receivable by him in respect of any other office or employment with the Group) and certain other benefits. The agreement will be terminable by the Company or Alan Needle by (a) prior to the second anniversary of Completion (the "Two Year Term"), 12 months' written notice to expire on or at any time after the Two Year Term and (b) after the Two Year Term, on 6 months' written notice. The Company will have the right to terminate Alan Needle's employment

forthwith on payment to Alan Needle in lieu of all or any part of the notice period a sum equal to his basic salary. The agreement will entitle Alan Needle to join the Isotek Group Private Pension (defined contributions) Scheme and the Company will contribute an amount equivalent to 10% of Alan Needle's gross salary per annum. In certain circumstances (for example in the event of material breach, gross misconduct, disqualification, criminal conviction, bankruptcy, drug addiction or mental illness) the Company would have the right to terminate his employment via summary dismissal. The agreement also includes an express duty of confidence and restrictive covenants following termination including, inter alia, a prohibition for a period of twelve months following termination on working for a competitor of the Company (or its subsidiaries).

9. Board Practices

9.1 Audit Committee

The following is a summary of the terms of reference under which the Audit Committee operates. Information as to the composition of the Audit Committee is contained in paragraph 9.4 below.

The following is a summary of the terms of reference under which the Company's Audit Committee operates.

The Audit Committee shall consist of not less than two independent non-executive Directors of the Company and may include as a member (but not as Chairman of the Audit Committee) the Chairman of the Board. A quorum shall be two members.

The Finance Director and other Board members shall attend only at the invitation of the Audit Committee. Representatives from the auditors shall be invited to attend at the discretion of the Audit Committee. The Audit Committee shall meet the auditors without executive directors being present after every meeting at which they attend. Meetings of the Audit Committee shall be held not less than two times a year.

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees will be directed by the Board to co-operate with any request made by the Audit Committee.

In carrying out its responsibilities, the Audit Committee shall take due consideration of and, where it deems appropriate; seek relevant advice pertaining to the differing legal, accounting and financial market regulations applying in the UK. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice up to a maximum of £10,000 in any one financial year. Spend above this level will require further advance authorisation by the Board.

The duties of the Audit Committee shall be:

- (i) to consider the appointment of the auditors, the co-ordination between joint or subsidiary auditors, the scope and planning of the audit, the audit fee and any questions of resignation or dismissal of the auditors;
- (ii) to keep under review the scope and results of the audit and the independence of the auditor;
- (iii) to review the half-year and annual financial statements before submission to the Board;
- (iv) to review and consider reports from the auditors;
- (v) to review the audit management letter and management response;
- (vi) to review the Company's statement on internal control systems prior to endorsement by the Board and regularly review the effectiveness of these systems;
- (vii) to set the programme for internal audit functions of the Company which are carried out through an independent third party appointed to undertake a review (in parallel with the Company's auditor) of the Company's financial controls and procedures;

- (viii) to keep under review the Company's procedures in respect of "whistle-blowing";
- (ix) to prepare an annual report to the Board which will set out the Terms of Reference of the Audit Committee, outline the policies and procedures which it applies and operates and outline any matters of significance which have arisen during the year, together with the steps the Audit Committee has taken to resolve them; and
- (x) to consider other topics as defined by the Board.

9.2 ***Remuneration Committee***

The following is a summary of the terms of reference under which the Remuneration Committee operates. Information as to the composition of the Remuneration Committee is contained in paragraph 9.4 below.

The Remuneration Committee shall be appointed by the Board and shall consist entirely of non-executive directors.

A quorum shall be two members.

The chairman of the Remuneration Committee shall be appointed by the members of the Remuneration Committee.

The secretary of the Remuneration Committee shall be the company secretary of the Company.

Meetings shall be held as and when required. They shall be called by the chairman of the Remuneration Committee. Other than in exceptional circumstances at least seven days' written notice shall be given accompanied by an agenda and appropriate papers on items to be discussed.

The Remuneration Committee is authorised by the Board to investigate any activity within its terms of reference and to seek any information it requires from any Company employee. The Board will ensure that Company employees co-operate fully with the Remuneration Committee.

The Remuneration Committee is authorised by the Board to obtain outside legal or other independent professional advice up to a maximum of £10,000 in any one financial year. Spend above this level will require further advance authorisation by the Board. Where appropriate the Remuneration Committee may seek relevant advice pertaining to the differing employment regulations and remuneration terms and conditions which exist in the various countries in which the Company operates.

The duties of the Remuneration Committee shall be:

- a. to approve and at least annually to review the remuneration, benefits, terms and conditions of employment of the executive directors, company secretary and senior employees of the Company and of the directors and their employees of the Company's subsidiaries. Specifically all salaries in excess of £100k or its currency equivalent shall be subject to the Committee's approval;
- b. to approve the terms and conditions of employment of any executive employed on terms requiring more than 3 months notice;
- c. to approve and at least annually review the fees and duties of the non-executive directors of the Company.

The finance director of the Company shall be a member of the Remuneration Committee for this purpose and, at the end of each financial year, shall issue to the Board for specific approval, a summary of the remuneration or fees paid in respect of the services of each non-executive director for that financial year;

- d. to advise and monitor suitable performance related criteria and approve prior to implementation any bonus or incentive schemes for employees and directors;
- e. to approve the bonus payments under any such approved scheme prior to payment;

- f. to approve the grant of share options in accordance with the rules of any Inland Revenue approved or any unapproved share option scheme;
- g. to consider and to recommend to the Board for approval any major proposed change in the terms and conditions or employment offered or granted by the Company;
- h. to recommend the terms upon which the employment or engagement is terminated of:
 - the executive directors of Filtronic plc;
 - the secretary of Filtronic plc;
 - the non-executive directors of Filtronic plc; and
- i. all approvals granted by the Remuneration Committee shall be subject to such consents of the Company in general meetings as may be required.

A member of the Remuneration Committee shall withdraw from any meeting during the discussion of any matter specific to his own terms and conditions of employment or engagement and shall have no vote on any decision of the Remuneration Committee relative to such matter.

9.3 *Nominations Committee*

The following is a summary of the terms of reference under which the Nominations Committee operates. Information as to the composition of the Nominations Committee is contained in paragraph 9.4 below.

The Nominations Committee shall comprise all of the non-executive directors together with the Chairman of the Company.

The chairman of the Nominations Committee shall be the Chairman of the Company.

The company secretary of the Company shall be secretary to the Nominations Committee.

Meetings shall be held as and when required. Meetings shall be called by the Chairman. Other than in exceptional circumstances at least seven days' written notice shall be given to all members of the Nominations Committee.

The duties of the Nominations Committee shall be:

- a. to approve all new appointments to the Board of Directors prior to the actual formal appointment by Board resolution;
- b. to support or otherwise, the re-appointment of Directors who retire in accordance with the Company's Articles of Association;
- c. to support the termination of employment or engagement of any Director or the Secretary of the Company; and
- d. to appoint a non-executive director as the senior non-executive.

The Nominations Committee's duties shall be confined to the approval, support or otherwise of appointments, re-appointments and terminations of employment or engagement. The terms of employment, engagement or termination thereof are matters for approval by the Remuneration Committee.

A member of the Nominations Committee shall withdraw from any meeting during the discussion of any matter specific to his own terms of employment or engagement and shall have no vote on any decision of the Nominations Committee relative to any such matter.

The secretary of the Nominations Committee shall issue minutes after approval by the Chairman to all members of the Board of Directors.

9.4 ***The Company's audit, remuneration and nominations committees are constituted as follows:***

<i>Committee</i>	<i>Members</i>
Audit	Graham Meek (<i>Chairman</i>) Howard Ford Reginald Gott
Remuneration	Reginald Gott (<i>Chairman</i>) Graham Meek Howard Ford
Nominations	Howard Ford (<i>Chairman</i>) Graham Meek Reginald Gott

9.5 The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code. The Company has complied with, and continues to comply with as at the date of this document, the provisions set out in Section 1 of the UK Corporate Governance Code and all the relevant corporate governance regimes in England and Wales.

10. Subsidiary undertakings of the Company

The Company is the parent company of the Group. The principal subsidiary undertakings of the Company (being those which are considered by the Company to be most likely to have a significant effect on the assessment of the assets and liabilities, financial position or profits and losses of the Company) are set out below:

<i>Company</i>	<i>Principal activity</i>	<i>Ordinary share held</i>
Filtronic Broadband Limited	Design and manufacture of point-to-point products	100%
Filtronic Holdings UK Limited	Holding company	100%

The Company holds voting rights in each subsidiary undertaking in the same proportion to its holdings in the ordinary share capital of the respective subsidiaries. All subsidiary undertakings are incorporated and operate in the United Kingdom.

11. Material contracts

Save for the contracts described or referred to in this paragraph 11, no member of the Group has (i) entered into any material contract (not being a contract entered into in the ordinary course of business) within the two years immediately preceding the date of this document or (ii) entered into any other contract (not being a contract entered into in the ordinary course of business) which contains any provision under which any member of the Group has any obligation or entitlement which is or may be material to the Group as at the date of this document.

The following contracts, none of which have been terminated have been made available for inspection within the last two years:

11.1 *Filtronic*

Warranty and Indemnity Deed

On 30 July 2010, a warranty and indemnity deed was entered into between the (1) Warrantors (2) the Company and (3) Isotek relating to the implementation of the Offer. A summary of the key terms of the Warranty and Indemnity Deed are set out at Part IV of this document. Pursuant to the provisions of the Warranty and Indemnity Deed, the Offer Document was posted to Isotek Shareholders today.

In connection with the Warranty and Indemnity Deed, a tax deed customary for a transaction of this nature was also entered into between the Warrantors and the Company containing, *inter alia*, indemnities relating to tax.

11.2 *Isotek*

(a) *Disposal of the Oil and Gas Business of Isotek Electronics Limited*

An agreement for the disposal of the Oil and Gas business of Isotek Electronics Limited, a wholly owned subsidiary of Isotek, to Isotek Oil and Gas Limited (formerly Triggertext Limited) for a total consideration of £500,000, was entered into on 31 March 2010. This business involved the manufacture of control systems for sub-sea operations in the offshore oil and gas industry. Isotek Oil and Gas Limited is owned, *inter alia*, by Professor John David Rhodes, Christopher Mobbs and Alan Needle all of whom are shareholders of Isotek. The shareholders of Isotek ratified the transaction on 28 July 2010.

(b) *Loan and Option Agreement and Debenture*

Isotek entered into a Loan and Option Agreement dated 22 July 2010 with, *inter alia*, the Black Family Investments, Isotek Oil and Gas Limited, Alan Needle and Professor John David Rhodes.

Pursuant to the terms of the Loan and Option Agreement, Isotek Oil and Gas Limited, the Black Family Investments and Alan Needle (the “Lenders”) agreed to loan to Isotek a sum of £900,000 by way of an interest free, fixed term loan with a repayment date of 31 December 2012. The loan will be repaid on Completion.

Isotek granted an all monies debenture, also dated 22 July 2010, to secure the obligations under the loan by way of a fixed and floating charge over all property and assets of Isotek in favour of Professor John David Rhodes. This debenture will be released on Completion.

Isotek has granted the Lenders on a pro rata basis an option to subscribe for 900,000 new ordinary shares of 1p each in the capital of Isotek at an exercise price of 20 pence per share. In the event of an offer being made for more than 50 per cent. of Isotek’s ordinary share capital or a general offer being made for all of Isotek’s shares, the option shall be exercised immediately after all conditions subject to which the offer is made have been satisfied. The Lenders are not obliged to exercise their option unless the Isotek price per share is more than 25 pence under the terms of such an offer.

(c) *Tax Assumption Deed*

On 22 July 2010, Isotek entered into a Tax Assumption Deed with Isotek Oil and Gas Limited and Isotek Electronics Limited. Pursuant to the Deed, Isotek Electronics Limited has agreed to pay a sum of £132,252.26 to Isotek Oil and Gas Limited (being a sum equal to the research and development tax credit for Isotek Electronics Limited for the year ended 31 May 2010). This amount (the “IEL Payment”) will remain outstanding as a loan due from Isotek Electronics Limited to Isotek Oil and Gas Limited until Completion. In consideration for this payment, Isotek Oil and Gas Limited has agreed to assume Isotek Electronics Limited’s obligations regarding the payment of tax liabilities for the period ending 31 May 2010.

Isotek has agreed with Isotek Oil and Gas Limited that, in consideration for the sum of £132,252.26 to be paid to Isotek Oil and Gas Limited, the title and benefit of the IEL Payment be assigned to Isotek. The consideration to be paid by Isotek shall remain outstanding as a loan due from Isotek to Isotek Oil and Gas Limited and shall be governed by and in accordance with the terms of the Loan and Option Agreement referred to above.

(d) *Warranty and Indemnity Deed*

See paragraph 11.1 of this Part X for details of the Warranty and Indemnity Deed.

(e) *Isotek Oil and Gas Limited Loan and Option Agreement and Debenture*

Isotek entered into a further Loan and Option Agreement dated 17 September 2010 with Isotek Oil and Gas Limited and Professor John David Rhodes.

Pursuant to the terms of the Loan and Option Agreement, Isotek Oil and Gas Limited agreed to loan to Isotek a sum of £250,000 by way of an interest free, fixed term loan with a repayment date of 31 December 2012. The loan will be repaid on Completion.

Isotek granted an all monies debenture, dated 19 October 2010, to secure the obligations under the loan by way of a fixed and floating charge over all property and assets of Isotek in favour of Professor John David Rhodes. This debenture will be released on Completion.

Isotek has granted Isotek Oil and Gas Limited an option to subscribe for 250,000 new ordinary shares of 1p each in the capital of Isotek at an exercise price of 20 pence per share. In the event of an offer being made for more than 50 per cent. of Isotek's ordinary share capital or a general offer being made for all of Isotek's shares, the option shall be exercised immediately after all conditions subject to which the offer is made have been satisfied. Isotek Oil and Gas Limited is not obliged to exercise the option unless the Isotek price per share is more than 25 pence under the terms of such an offer.

(f) *Mark Lawn Loan and Option Agreement and Debenture*

Isotek entered into a Loan and Option Agreement dated 19 October 2010 with Mark Lawn. Pursuant to the terms of the Loan and Option Agreement, Mark Lawn agreed to loan to Isotek a sum of £250,000 by way of an interest free, fixed term loan with a repayment date of 31 December 2012. The loan will be repaid on Completion.

Isotek granted an all monies debenture, also dated 19 October 2010, to secure the obligations under the loan by way of a fixed and floating charge over all property and assets of Isotek in favour of Professor John David Rhodes. This debenture will be released on Completion.

Isotek has granted Mark Lawn an option to subscribe for 250,000 new ordinary Shares of 1p each in the capital of Isotek at an exercise price of 20 pence per share. In the event of an offer being made for more than 50 per cent. of Isotek's ordinary share capital or a general offer being made for all of Isotek's shares, the option shall be exercised immediately after all conditions subject to which the offer is made have been satisfied.

12. Intellectual Property

Neither Filtronic nor Isotek are dependant on third party patents or licences for carrying out their respective business.

13. Litigation

13.1 Filtronic

Save as set out below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), nor have there been any such proceedings during the 12 months preceding the date of this document, which may have, or have had in the recent past, a significant effect on the Company and/or the Group's financial position or profitability.

On 1 August 2008 the Company completed the sale of Filtronic Defence Limited ("FDL") to Teledyne Technologies Incorporated ("Teledyne") – pursuant to the terms of that sale, the Company agreed to indemnify Teledyne against certain costs and losses associated with making good certain alleged defects in filters supplied by the Company to Thales (provided that such making good continued to be managed and carried out in accordance with FDL's ordinary course of business policies for dealing with returned products). The Company is currently in dispute with Teledyne as to the amount of any further costs which Teledyne might properly be able to claim from the Company under the terms of this indemnity (with Teledyne currently demanding in the region of £270,000, as being their calculation of their non-reimbursed costs and losses to date of their endeavouring to make good the filters in question). Teledyne has not threatened proceedings. However the Company cannot rule out that some form of proceedings may be threatened or brought in relation to this matter. The

Company intends to defend vigorously any such proceedings (and any continued demands from Teledyne) to the extent that the Company considers that any amount claimed by Teledyne exceeds the proper scope of the aforementioned indemnity.

13.2 *Isotek*

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Isotek is aware), nor have there been any such proceedings during the 12 months preceding the date of this document, which may have, or have had in the recent past, a significant effect on Isotek and/or the Isotek Group's financial position or profitability.

14. Taxation

The comments set out below are based on existing United Kingdom law and what is understood to be current HM Revenue & Customs practice, both of which are subject to change at any time. They are intended as a general guide only and apply only to shareholders who are resident and, in the case of individuals, ordinarily resident and domiciled, in the United Kingdom for tax purposes (except to the extent that specific reference is made to shareholders resident outside the United Kingdom), who hold the shares as investments and who are the absolute beneficial owners of those shares. The comments set out below do not deal with the position of certain classes of shareholders, such as dealers in securities, broker dealers, insurance companies, collective investment schemes or shareholders who have or are deemed to have acquired their existing shares by virtue of an office or employment. Shareholders who are in any doubt as to their taxation position or who are subject to taxation in any jurisdiction other than the United Kingdom, should consult their own professional advisers immediately.

15. Capital gains tax

Liability to United Kingdom taxation of chargeable gains will depend on the individual circumstances of the Isotek Shareholder and on the form of consideration received.

To the extent that an Isotek Shareholder receives cash under the Offer, this will constitute a disposal, or part disposal, of his shares in Isotek for the purposes of United Kingdom taxation of chargeable gains. Such a disposal or part disposal may, depending on the Isotek Shareholder's individual circumstances, give rise to a liability to United Kingdom taxation on chargeable gains.

For the purposes of United Kingdom taxation of chargeable gains, it is expected that the issue of New Ordinary Shares should be regarded as a reorganisation of Isotek's share capital. Accordingly, a Shareholder should not be treated as having made a disposal of his shares in Isotek for the purposes of United Kingdom taxation of chargeable gains to the extent that he receives New Ordinary Shares in exchange for his shares in Isotek under the Offer. Instead the New Ordinary Shares will be treated as the same asset as his shares in Isotek, acquired at the same time and price as his shares in Isotek.

Any Isotek Shareholder who, either alone or together with persons connected with him, holds more than five per cent of, or of any class of, shares in or debentures of Isotek, is advised that an application for clearance has been made to HM Revenue & Customs under Section 138 of the Taxation of Chargeable Gains Act 1992 in respect of the Offer. If such clearance is given, any shareholder will be treated in the manner described in the preceding paragraph. The Offer is not conditional on such clearance being obtained.

However, a subsequent disposal of the New Ordinary Shares may, depending on individual circumstances, give rise to a liability to United Kingdom taxation of chargeable gains and, accordingly, any gain deferred on acceptance of the Offer may, on such disposal, become chargeable to taxation.

As a result of Finance (No. 2) Act 2010, individual Isotek Shareholders who are resident in the United Kingdom for tax purposes and whose total taxable income and gains after all allowable deductions (including losses, the income tax personal allowance and the capital gains tax annual exempt amount) is less than the upper limit of the basic rate income tax band (£37,400 for 2010-11), the rate of capital gains tax will be 18 per cent. For gains (and any parts of gains) above that limit the rate will be 28 per cent. Trustees and

personal representatives pay capital gains tax at 28 per cent. These rates apply irrespective of how long an asset has been held after the withdrawal of taper relief and indexation allowance. These rules affect the treatment of disposals of New Ordinary Shares on or after 23 June 2010, but do not affect holders within the charge to UK corporation tax in respect of their chargeable gains.

In the case of an Isotek Shareholder within the charge to UK corporation tax, indexation allowance continues to be available.

16. Taxation of Dividends

No taxation will be withheld from dividends paid by Filtronic.

16.1 *United Kingdom resident individuals*

Individual Shareholders, who are resident in the United Kingdom for tax purposes, will generally be subject to income tax on the aggregate amount of the dividend and a tax credit equal to 10 per cent. of the gross dividend (or one-ninth of the dividend received) (together the “gross dividend”). For example, on a cash dividend of £90 an individual would be treated as having received dividend income of £100 and as having paid income tax of £10 (the “associated tax credit”). The gross dividend will be regarded as the top slice of the shareholder’s income.

Individual Shareholders who (after taking account of the gross dividend) are liable to income tax at the basic rate, pay tax on dividends at the dividend ordinary rate of 10 per cent. Such individuals will have no further tax to pay, as the tax liability will be fully extinguished by the associated tax credit. Individual Shareholders who are not liable to income tax are not able to recover the tax credit.

Individual Shareholders who (after taking account of the gross dividend) are subject to income tax at the higher rate (currently 40 per cent) will be liable to tax at the dividend upper rate of 32.5 per cent on the gross dividend. For example, a higher rate tax payer receiving a dividend of £90 would for income tax purposes be treated as receiving dividend income of £100 (the aggregate of the £90 dividend received and the associated tax credit of £10). The tax liability would be £32.50. However, the associated tax credit of £10 would be set against the tax liability, leaving the individual with net tax to pay of £22.50.

Individual Shareholders who (after taking account of the gross dividend) are subject to income tax at the additional rate (currently 50 per cent) will be liable to income tax at the dividend additional rate of 42.5 per cent on the gross dividend. For example, a 50 per cent tax payer receiving a dividend of £90 would for income purposes be treated as receiving dividend income of £100 (the aggregate of the £90 dividend received and the associated tax credit of £10). The tax liability would be £42.50. However the associated tax credit of £10 would be set against the tax liability, leaving the individual with net tax to pay of £32.50.

16.2 *United Kingdom resident trustees*

Trustees of discretionary trusts liable to account for income tax on the income of the trust will be treated as having received gross income equal to the aggregate amount of the dividend and associated tax credit. Trustees will pay tax on dividends received at the rate of 42.5 per cent. per cent. As with the additional rate individual shareholders, the 10 per cent tax credit will be set against the tax liability leaving further tax to pay of 32.5 per cent of the gross dividend.

16.3 *United Kingdom resident companies*

Shareholders who are within the charge to UK corporation tax will be subject to corporation tax on dividends unless the dividends fall within an exempt class and certain other conditions are met. Whether an exempt class applies and whether other conditions are met will depend upon the circumstances of the particular shareholder, although it is expected that the dividends paid by the company would normally be exempt.

16.4 *United Kingdom resident gross funds/charities*

United Kingdom resident Shareholders who are not liable to United Kingdom tax on dividends, including pension funds and charities, are not entitled to claim repayment of the tax credit attaching to dividends paid.

16.5 *Non-United Kingdom residents*

Generally, non-United Kingdom residents will not be subject to any United Kingdom taxation in respect of United Kingdom dividend income nor will they be able to recover the associated tax credit, although this will depend upon the existence of and the terms of any double taxation convention between the United Kingdom and the country in which such Shareholder is resident.

Non-United Kingdom resident Shareholders may be subject to tax on United Kingdom dividend income under any law to which that person is subject outside the United Kingdom. Non-United Kingdom resident Shareholders should consult their own tax advisers with regard to their liability to taxation in respect of the cash dividend.

17. **Stamp Duty and Stamp Duty Reserve Tax**

17.1 *Shares held outside the CREST system*

The conveyance or transfer on sale of shares will usually be subject to stamp duty on the instrument of transfer, generally at the rate of 0.5 per cent of the amount or value of the consideration. Stamp duty is charged in multiples of £5. An exemption from stamp duty is available on an instrument transferring shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000.

An obligation to account for stamp duty reserve tax ("SDRT") at the rate of 0.5 per cent of the amount or value of the consideration will also arise if an unconditional agreement to transfer the shares is not completed by a duly stamped instrument of transfer before the "accountable date" for SDRT purposes. The accountable date is the seventh day of the month following the month in which the agreement for the transfer is made. Payment of the stamp duty will cancel the liability to account for SDRT.

It is the purchaser who is in general liable to account for stamp duty or SDRT.

17.2 *Shares held within the CREST system*

The transfer of shares in uncertificated form in the CREST system will generally attract a liability to SDRT at the rate of 0.5 per cent of the amount or value of the consideration. The SDRT will generally be collected by CREST.

The above statements are intended as a general guide to the current position. Certain categories of person are not liable to stamp duty or SDRT, and others may be liable at a higher rate or may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

18. **US Taxation**

18.1 *US federal income tax*

To ensure compliance with US Treasury Department Circular 230, Isotek Shareholders are hereby notified that: (a) any reference to US federal income tax issues in this document is not intended or written to be relied upon, and cannot be relied upon, by Isotek Shareholders for the purpose of avoiding penalties that may be imposed on Isotek Shareholders under the US Internal Revenue Code of 1986, as amended (the "Code"); (b) such reference is included herein in connection with the promotion or marketing (within the meaning of Circular 230) of the transactions or matters addressed herein; and (c) Isotek Shareholders should seek advice based on their particular circumstances from an independent tax adviser. Nothing herein should be considered to impose on the recipient of this document any limitation on disclosure of the US tax

treatment or US tax structure of the Company or Isotek or its transactions or matters described herein.

The following is a summary of the material US federal income tax consequences of the Offer to holders of Isotek Shares, which are surrendered pursuant to the Offer, and are not exhaustive of all possible tax considerations. This summary is based upon the Code, regulations promulgated under the Code by the US Treasury Department (including proposed and temporary regulations), rulings, current administrative interpretations and official pronouncements of the IRS, and judicial decisions, all as currently in effect and all of which are subject to differing interpretations or to change, possibly with retroactive effect. Such change could materially and adversely affect the tax consequences described below. No assurance can be given that the IRS will not assert, or that a court will not sustain, a position contrary to any of the tax consequences described below.

This summary is for general information only and does not address all US federal income tax consequences of the Acquisition that may be important to a particular holder in light of his investment or tax circumstances (such as persons who acquired Isotek Shares pursuant to the exercise of any employee stock option or otherwise as compensation for services) or to holders subject to special tax rules (banks; financial institutions; insurance companies; dealers in stocks, securities, or currencies; traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; tax-exempt organisations; real estate investment trusts; regulated investment companies; qualified retirement plans, individual retirement accounts, and other tax-deferred accounts; expatriates of the United States; persons subject to the alternative minimum tax; persons holding Isotek Shares as part of a straddle, hedge, conversion transaction, or other integrated transaction; US Holders (as defined below) whose functional currency is other than the US dollar; and Non-US Holders (being a beneficial owner of Isotek Shares that is not a US Holder).

In addition, this summary does not address any matters relating to equity compensation or benefit plans. You should consult your own tax adviser regarding such matters.

This discussion is not a comprehensive description of all US federal tax consequences of the Offer that may be relevant to US Holders. It does not address any estate, gift, or alternative minimum tax consequences. US Holders are urged to consult their own tax adviser regarding their particular circumstances and the US federal tax consequences to them of the Offer, as well as any tax consequences arising under the laws of any state, local, or foreign or other tax jurisdiction and the possible effects of changes in US federal or other tax laws.

This summary is directed solely to US Holders who hold Isotek Shares as a capital asset within the meaning of Section 1221 of the Code, which generally means as property held for investment. For the purposes of this document, the term “US Holder” means a beneficial owner of Isotek Shares that is any of the following:

- an individual who is a citizen or resident of the United States or someone treated as a US citizen or resident for US federal income tax purposes;
- a corporation (or other entity taxable as a corporation for US federal income tax purposes) created or organised in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate, the income of which is subject to US federal income taxation regardless of its source;
- a trust if a US court can exercise primary supervision over the trust’s administration and one or more US persons are authorised to control all substantial decisions of the trust; or
- a trust in existence on August 20, 1996 that has a valid election in effect under applicable Treasury Regulations to be treated as a US person.

If a partnership (including for this purpose any entity treated as a partnership for US federal income tax purposes) is a beneficial owner of Isotek Shares, the US federal income tax consequences to a

partner in the partnership will generally depend on the status of the partner and the activities of the partnership. An Isotek Shareholder that is a partnership and the partners in such partnership should consult their own tax advisers regarding the US federal income tax consequences of the Offer.

In addition, this document assumes that the Company is not, and has never been, treated as a “passive foreign investment company” (“PFIC”) for US federal income tax purposes. If the Company is treated as a PFIC for US federal income tax purposes in any year with respect to a US Holder, such treatment could among other things significantly alter the US federal income tax consequences of a disposition of Isotek Shares. Since the PFIC rules are complex, US Holders should consult their own tax advisors regarding them and how they may affect the US federal income tax consequences of the disposition of Isotek Shares in connection with the Offer.

18.2 *Taxation of US Holders*

The Offer will be treated for US federal income tax purposes as a fully taxable sale of stock by each US Holder whose Isotek Shares are surrendered for cash and Ordinary Shares. As a result, each US Holder will recognise gain or loss measured by the difference, if any, between (i) the sum of the amount of cash and the fair market value of Ordinary Shares received with respect to such Isotek Shares and (ii) the holder’s adjusted tax basis in such Isotek Shares. The amount of gain or loss will be determined separately for each block of Isotek Shares (i.e. Isotek Shares acquired at the same cost in a single transaction). In general, any gain or loss recognised by a US Holder in connection with the Offer will be capital gain or loss, and will be long-term capital gain or loss if the holder’s holding period for the Isotek Shares is more than one year as of the effective time of the Offer. The deductibility of capital losses is significantly limited.

18.3 *Foreign Currency Exchange Gain or Loss*

Any gain or loss recognised by a US Holder surrendering his Isotek Shares pursuant to the Offer that is attributable to the US Holder’s receipt of cash consideration in pounds sterling must be included, for US federal income tax purposes, in such US Holder’s income as a US dollar amount based on the exchange rate in effect on the disposition date, regardless of whether the payment is in fact converted into US dollars.

If the pounds sterling received in the Offer are converted into US dollars on the date of receipt, a US Holder generally will not recognise a foreign currency gain or loss. However, if the pounds sterling received in the Offer is converted into US dollars on a later date, a US Holder must include in income any gain or loss resulting from any exchange rate fluctuations. The gain or loss will be equal to the difference between (i) the US dollar value of the gain or loss the US Holder included in income in accordance with the prior paragraph and (ii) the amount that the US Holder will receive on the conversion of the pounds sterling into US dollars. Such gain or loss will generally be ordinary income or loss.

18.4 *Information Reporting and Backup Withholding*

Generally, information reporting requirements will apply to proceeds from a US Holder’s disposition of Isotek Shares in the Offer if such proceeds are paid within the United States (and, in certain cases, outside the United States), unless the US Holder is an exempt recipient such as a corporation. Payment of the proceeds from the sale of Isotek Shares in the Offer effected outside the United States by a foreign office of certain United States connected brokers will also be subject to information reporting requirements (but will not be subject to backup withholding tax) unless the broker has documentary evidence in its records that the beneficial owner is not a US Holder and has no actual knowledge to the contrary, or the beneficial owner otherwise establishes an exemption.

Furthermore, backup withholding (currently at 28 per cent.) may apply to such amounts unless such US Holder (i) is an exempt recipient that, if required, establishes its right to an exemption, or (ii) provides its taxpayer identification number, certifies that it is not currently subject to backup withholding, and complies with other applicable requirements. A US Holder may generally avoid backup withholding by furnishing a properly completed IRS Form W-9 or substitute form.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against the US Holder's US federal income tax liability. Furthermore, US Holders may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

19. Working capital

The Company is of the opinion that the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of this document.

20. Mandatory bids, squeeze-out and sell-out rules relating to the Ordinary Shares

The Company is subject to the City Code on Takeovers and Mergers. There is not in existence any current mandatory takeover bid in relation to the Company. Were there to be a takeover offer for the Company (as defined in section 974 of the Companies Act), compulsory purchase provisions in the Companies Act would be triggered, subject to, amongst other things, the offeror achieving certain thresholds in terms of acquired shares and subject to serving certain notices within prescribed time limits, which would give the offeror the right to buy out minority shareholders (in accordance with section 979 of the Companies Act). The Companies Act also contains provisions allowing, in certain circumstances, for a right for a minority shareholder to be bought out by an offeror. Other than as provided by the Companies Act and the City Code on Takeovers and Mergers, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules in relation to the Ordinary Shares.

21. Public takeover bids in the last and current financial years

There have been no public takeover bids by third parties in respect of the share capital of the Company in the last or current financial year.

22. Employees

As at 27 October 2010 (being the latest practicable date prior to the publication of the document) the Group had 136 employees. The tables below set out the average number of people employed by the Group in each of the last four financial years together with a breakdown by category of activity:

	<i>Financial year ended</i>			
	<i>31 May</i>	<i>31 May</i>	<i>31 May</i>	<i>31 May</i>
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Manufacturing	105	146	174	158
Research and development	31	31	37	25
Sales		1	2	2
Administration	4	4	4	3
Point-to-point	140	182	217	189
Defence Electronics			161	182
Central Services	9	15	18	24
Group Total	149	197	396	395

23. Consents

23.1 *Filtronic*

KPMG has given and not withdrawn its written consent to the inclusion in this document of its reports set out in Parts VII and VIII of this document and the references to its name in the form and context in which they appear and has authorised the contents of such report for the purposes of the Prospectus Rules.

Panmure Gordon has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they appear.

23.2 *Isotek*

KPMG has given and not withdrawn its written consent to the inclusion in this document of its reports set out in Parts VII and VIII of this document and the references to its name in the form and context in which they appear and has authorised the contents of such report for the purposes of the Prospectus Rules.

24. Significant Change

24.1 *Filtronic*

There has been no significant change in the financial or trading position of the Group since 31 May 2010, being the date up to which the Company's latest annual audited accounts were prepared.

24.2 *Isotek*

Apart from the changes detailed in this paragraph 24.2, there has been no significant change in the financial or trading position of the Isotek since 31 May 2010.

Prior to 31 May 2010 Isotek sales were of prototype units and small trial runs (tens rather than hundreds of units). Since May 2010 such sales have continued but have also progressed to area trials involving sales with 2 significant customers in the hundreds of units. As a result the sales, margin and profitability of the business have increased significantly. Sales in the three months to 31 May 2010 totalled £0.2 million, aggregate sales for the three months to 31 August 2010 were £0.4 million. Whilst sales have increased they remain consistent with Filtronic's previously disclosed expectation of £5 million for the post completion period to 31 May 2011.

Note 24 "Post Balance sheet events" of Part VII (Financial Information on Isotek), discloses that post 31 May 2010, Isotek has raised a further £1.4 million of debt funding. In consideration for the debt funding an additional 1.4 million share options at an exercise price of 20p have been issued.

25. Related party transactions

Other than as disclosed in the financial information incorporated by reference into this document (as explained in Part VI of this document) for FY08, FY09 and FY10 there are no related party transactions between the Company and members of the Group that were entered into during FY08, FY09 and FY10 or during the period between 1 June 2010 and the date of this document.

26. London Stock Exchange Quotation

The following table sets out the closing middle market quotations for the Company's Ordinary Shares as derived from the Daily Official List as published by the London Stock Exchange for the first dealing day of the six months immediately prior to the date of this document and for 27 October 2010 (being the latest practicable date before the publication of this document):

	<i>The Company's Share Price</i> (pence)
4 May 2010	30.00
1 June 2010	26.00
1 July 2010	27.00
2 August 2010	34.00
1 September 2010	38.25
1 October 2010	36.75
27 October 2010	35.75

27. Miscellaneous

- 27.1 The total expenses of or incidental to the Issue (including irrevocable VAT) which are payable by the Company are estimated to amount to approximately £1.1 million.

- 27.2 The Company's auditors are KPMG, 1 The Embankment, Neville Street, Leeds LS1 4DW. KPMG have audited the Company's accounts for the financial years ended 31 May 2008, 2009 and 2010. KPMG are Chartered Accountants and Registered Auditors and have carried out the audits of the accounts for the financial years ending 31 May 2008, 2009 and 2010 in accordance with the Auditing Standards issued by the Auditing Practices Board. Such accounts have been reported on without qualification. Save for the information contained in Part VI of this document, none of the information contained in this document has been audited.
- 27.3 The Company's registrars and receiving agents are Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA.
- 27.4 The New Ordinary Shares have not been marketed, nor are they available, in whole or in part, to the public in connection with the application for listing save under the terms of the Acquisition.
- 27.5 The existing Ordinary Shares are in registered form, are capable of being held in uncertificated form and are admitted to the Official List and are traded only on the market for listed securities of the London Stock Exchange. Application for trading of the New Ordinary Shares is not being and will not be sought on any other stock exchange other than the market for listed securities of the London Stock Exchange. The New Ordinary Shares will be admitted 16 November 2010.
- 27.6 The New Ordinary Shares will be issued at 35.75 pence per Share. The closing mid-market price of a Company Share on 27 October 2010, being the last practicable date before the publication of this document, was 35.75 pence. This represents a premium of 25.75 pence per share to the nominal value of 10 pence of each Share.
- 27.7 The Company is not aware of any potential conflict of interest between any of the Directors' duties to the Company and their private interests. There is no arrangement or understanding between the Company and any major Shareholders, customers, suppliers or others, pursuant to which any Director was selected as a Director.
- 27.8 The Company confirms that where information in this document has been sourced from a third party, the source of this information has been provided, this information has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by the authors of those documents, no facts have been omitted which would render the reproduced information inaccurate or misleading.

28. Documents available for inspection

Copies of the documents listed below may be inspected free of charge at the offices of the Company at Unit 2, Acorn Park, Charlestown, Shipley, BD17 7SW and at the offices of Pinsent Masons LLP, One Ropemaker Street, London EC2Y 9AH during normal business hours on any weekday (Saturdays and public holidays excepted) up to and including 12 November 2010:

- (1) the Warranty and Indemnity Deed;
- (2) the Offer Document;
- (3) the memorandum and articles of association of the Company;
- (4) the statutory accounts of the Company for the three financial years ended 31 May 2010;
- (5) the Directors' service contracts referred to in paragraph 8 above;
- (6) the written consents referred to in paragraph 23 above;
- (7) the Company Share Schemes; and
- (8) this document.

Dated: 28 October 2010

PART XI – DEFINITIONS

“Accepting Shareholders”	Isotek Shareholders who have accepted the Offer in accordance with the Offer Document (including following any enforcement or exercise by Filtronic of its rights under the terms of any irrevocable undertaking, but excluding any Isotek Shareholders who receive a notice from Filtronic pursuant to the compulsory acquisition “squeeze out” procedure under sections 974 to 991 (inclusive) of the Companies Act
“Admission”	admission of the New Shares to (i) the Official List and (ii) trading on the London Stock Exchange’s main market for listed securities becoming effective in accordance with respectively, LR3.2.7G of the Listing Rules and paragraph 2.1 of the Admission and Disclosure Standards
“Acquisition”	the proposed acquisition of the entire issued and to be issued share capital pursuant to Part 26 of the Companies Act of Isotek pursuant to the Offer
“Admission and Disclosure Standards”	the requirements contained in the publication “Admission and Disclosure Standards” containing, amongst other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s main market for listed securities
“AGM” or “annual general meeting”	an annual general meeting of the Company
“Articles”	the Company’s articles of association
“Audit Committee”	the Company’s audit committee
“Auditor” or “KPMG”	KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds LS1 4DW
“Board” or “Board of Directors”	the directors, from time to time of the Company and the Proposed Director
“Business”	the business as carried on by the Group as at the date of this document
“Business Day”	a day (other than a Saturday or Sunday) on which banks are open for general business in London
“certificated” or “in certificated form”	a share or other security which is not in uncertificated form (that is, not in CREST)
“Chairman”	the chairman for the time being of the Company
“Companies Act”	the United Kingdom Companies Act 2006, as amended
“Company”	Filtronic plc, a company registered in England and Wales under company number 2891064
“Company Share Schemes”	the schemes described in paragraph 4 of Part X of this document
“Completion”	the Offer becoming or being declared unconditional in all respects

“Consideration”	the consideration payable by the Company for the entire issued and to be issued share capital of Isotek, subject to the Offer Conditions
“Consideration Shares”	means 18,550,000 Ordinary Shares to be issued and allotted subject to the terms of the Offer
“CREST”	the relevant system (as defined in the CREST Regulations) for the paperless settlement of trades in listed securities in the United Kingdom, of which Euroclear is the operator (as defined in the CREST Regulations)
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (as amended) (SI 2001/3755) of the UK
“Daily Official List”	the daily record setting out the prices of all trades in shares and other securities conducted on the London Stock Exchange
“Directors”	the Executive Directors and Non-executive Directors of the Company as at the date of this document or from time to time as the context requires
“Disclosure and Transparency Rules”	the Disclosure Rules and Transparency Rules made by the FSA under Part VI of FSMA
“Enlarged Group”	the Group immediately following the Acquisition
“Escrow Shares”	such number of Consideration Shares issued to those Isotek Shareholders who have accepted the Offer
“ESOP”	The Filtronic plc Employee Share Option Plan 2010, a summary of the main provisions of which is set out in paragraph 4.3 of Part X of this document and a copy of the draft rules of which will be available for inspection as set out in paragraph 28 of Part X of this document
“EU”	European Union
“Euroclear”	Euroclear UK & Ireland Limited, a company incorporated under the laws of England and Wales and the operator of CREST
“European Economic Area”	the EU, Iceland, Norway and Liechtenstein
“Exchange Act”	United States Exchange Act of 1934, as amended
“Executive Directors”	the executive Directors of the Company as at the date of this document
“Filtronic”	the Company or, where the context admits, the relevant company within the Group
“FSA”	the Financial Services Authority of the United Kingdom
“FSMA”	the Financial Services and Markets Act 2000
“FY08”	the financial year ended 31 May 2008
“FY09”	the financial year ended 31 May 2009
“FY10”	the financial year ended 31 May 2010
“FY11”	the financial year ended 31 May 2011

“Group”	the Company and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings
“HMRC”	Her Majesty’s Revenue & Customs
“IAS”	International Accounting Standards as adopted by the EU
“IFRS”	International Financial Reporting Standards as adopted by the EU
“IRS”	US Internal Revenue Service
“ISIN”	International Security Identification Number
“Isotek”	Isotek (Holdings) Limited, a company registered in England and Wales under company number 03398090 or, where the context admits, the relevant company within the Isotek Group
“Isotek Group”	Isotek and its subsidiaries and subsidiary undertakings
“Isotek Shareholders”	the holders of Isotek Shares
“Isotek Shares”	ordinary shares of 1p each in the capital of Isotek as at 27 October 2010
“Issue”	the issue of the Consideration Shares in connection with the Acquisition
“Listing Rules”	the listing rules of the UK Listing Authority
“London Stock Exchange”	London Stock Exchange plc
“Model Code”	the model code of the UKLA
“MMIC”	monolithic microwave integrated circuits
“New Ordinary Shares”	the new Ordinary Shares which the Company will allot and issue pursuant to the Issue
“Nominations Committee”	the Company’s nominations committee
“Non-executive Directors”	the non-executive Directors of the Company as at the date of this document
“OEM”	original equipment manufacturer
“Offer”	means the offer made by the Company to acquire the entire issued and to be issued share capital of Isotek on the terms and conditions set out in the Offer Document and the form of acceptance and (where the context permits) any subsequent revision, variation, extension or renewal thereof
“Offer Conditions”	the conditions relating to the offer as set out in the Offer Document based on the terms of the Warranty and Indemnity Deed
“Offer Document”	the document containing the Offer circulated to Shareholders alongside this Prospectus
“Official List”	the official list of the UKLA
“Ordinary Shares” or “Shares”	ordinary shares of 10 pence each in the capital of the Company having the rights set out in the Articles as described in paragraph 7 of Part X (“Additional Information”)

“Overseas Shareholders”	Qualifying Shareholders with registered addresses in, or who are citizens, residents or nationals of, jurisdictions outside the United Kingdom
“Panmure Gordon”	Panmure Gordon (UK) Limited, financial advisor and sponsor and broker to Filtronic
“Proposed Director”	Alan Needle, who shall be invited to join the Board as an executive director of Filtronic on Completion
“Prospectus” or “this document”	the prospectus issued by the Company in respect of the Issue, together with any supplements or amendments thereto
“Prospectus Directive”	Directive 2003/71/EC and includes any relevant implementing measures in each Member State of the European Economic Area that has implemented Directive 2003/71/EC
“Prospectus Rules”	the Prospectus Rules of the FSA
“Realised Value”	the realised value in respect of a Consideration Share for the purposes of settling the Settled Claim (as defined in the Warranty and Indemnity Deed) shall be the net amount otherwise receivable (before the payment of tax) by the Accepting Shareholder from the sale of the Consideration Shares in question
“Registered Office”	the registered office of the Company at Unit 2, Acorn Park, Charlestown, Shipley BD17 7SW
“Registrar”	Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA
“Regulation S”	Regulation S under the US Securities Act
“Relevant Accepting Proportions”	the respective proportions in which (as compared to each other) the Accepting Shareholders hold those Isotek Shares in respect of which the Offer has been accepted as at Completion
“Remuneration Committee”	the Company’s remuneration committee
“Restricted Territories”	Australia, Canada, Japan and the Republic of South Africa
“RF”	radio frequency
“SEC”	US Securities and Exchange Commission
“Sellers”	the holders of ordinary shares of 1p each in the capital of Isotek as at Completion
“Shareholders”	holders of Ordinary Shares
“Takeover Code”	the City Code on Takeovers and Mergers in the United Kingdom
“transceiver”	a device that has both transmit and receive functions
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority” or “UKLA”	the FSA in its capacity as the competent authority for the purposes of Part VI of FSMA and in the exercise of its functions in respect of the admission to AIM otherwise than in accordance with Part VI of FSMA

“uncertificated” or “in uncertificated form”	a share or other security which is, for the time being, recorded on the relevant register of members as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“United States” or “US” or “USA”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“US Securities Act”	the US Securities Act of 1933, as amended
“VAT”	value added tax
“Warrantors”	David Rhodes, Alan Needle and Christopher Mobbs
“Warranty and Indemnity Deed”	the deed dated 30 July 2010 between the (1) Warrantors (2) the Company and (3) Isotek relating to the implementation of the Offer
“Wireless Telecoms Business”	the wireless telecoms business carried on by Isotek as at the date of this document

