Financial Highlights

	2013	2012
Revenue	£40.0m	£26.1m
Operating profit before amortisation and exceptional items	£3.1m	£0.8m
Operating profit/(loss)	£0.2m	£(1.7)m
Profit/(loss) before taxation	£0.2m	£(1.6)m
Profit for the period	£0.3m	£0.04m
Basic earnings per share	0.29p	0.04p
Diluted earnings per share	0.29p	0.04p
Cash	£2.4m	£3.7m
Interest bearing borrowings	£(0.5)m	–
Total equity	£20.2m	£19.8m

The year ended 31 May 2013 produced revenue of £40.0m with an operating profit before exceptional items and the amortisation of intangibles of £3.1m compared with the prior year revenue of £26.1m with a £0.8m operating profit before exceptional items and the amortisation of intangibles.

Revenue included £31.9m (2012 £13.1m) for the Wireless business and £8.1m (2012 £13.0m) for the Broadband business. Operating profit before exceptionals and intangible amortisation was split Wireless £6.4m profit, Broadband £2.4m loss and central costs of £0.9m. Net funds at the end of the year of £1.9m was down from last year's £3.7m due to temporary working capital requirements related to high final quarter activity.

Wireless Business

Wireless continued to deliver strong growth to produce a full year's sales of £31.9m versus a prior year £13.1m. With multiple products in volume production for 4G (LTE) network rollouts, the second half also benefitted from significant sales of LTE interference mitigation filters. As gross margins were maintained, fixed costs were better spread and profitability improved significantly in the second half-year. The full year's operating profit of £6.4m was an improvement on the first half's £1.8m, and on last year's £0.7m profit for the full year.

Following a build-up of 4G related business in Europe, the importance of sales to the US LTE market reduced somewhat, though this territory still accounted for around 60% of Wireless sales (2012 over 80%). Whilst US operator network roll-outs are still expected to lead demand from Europe and the rest of world, the non US market is expected to grow significantly in the next financial year.

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

Broadband Business

Broadband suffered a 38% fall in revenues to £8.1m (2012 £13.0m), broadly in line with expectations. The sales reduction resulted in an operating loss for the year of £2.4m (2012 £0.6m profit). As previously announced, Broadband is transitioning from its traditional module business to new growth products such as E-band. These product opportunities continue to develop but with production volumes not commencing before FY2014 the year under review to May 2013 has seen a challenging transition. In order to reduce the Broadband cost base a redundancy programme was implemented which resulted in a 16% reduction of the Broadband workforce.

Outlook

Mobile data traffic doubled during 2012 and continues to grow rapidly. Increasing numbers of data hungry devices (smart phones, tablets, e-books, cameras) are being used to access ever more sophisticated applications many of which require video. Video applications are now projected to grow at 60% pa to 2018 and to represent around half of mobile data traffic by then.

With customer satisfaction critically dependent upon network performance, operators in all the main developed markets are expected to invest heavily in LTE rollouts following the lead already seen in the US market. The rapid deployment of 4G/LTE will be assisted by the re-farming of spectrum, whilst network operators will be adopting technologies which allow 2G/3G/4G services to share the same mobile infrastructure sites.

In most markets outside North America, LTE is still in its early stages of rollout; in particular Europe with its well developed 3G networks has to date lagged but is expected to experience significant demand growth over the next 2-3 years.

During FY2013 Wireless sales were driven by two main product areas: firstly, infrastructure demand driven by US network rollouts; and secondly, in the second half year by demand for the LTE interference mitigation filters, principally to the UK. US LTE rollouts (notably by Sprint and T-Mobile) will continue in FY2014 but the European operator market is expected to develop further. As with the US, Filtronic will access the market through major OEMs, as well as by direct sales to operators. New European markets for the LTE interference mitigation filters are being explored, though it is as yet not possible to size, or precisely time, the opportunities that might be presented in each national market.

Filtronic Wireless secured particularly strong growth in the second half of FY2013 on the back of these two factors. Prospects for the first half of FY2014 also look good, though tougher comparisons necessarily point to slower rates of underlying growth than in recent six-monthly periods. Whilst order cover extends well in to the first half, Wireless does not have forward visibility beyond that time. This is completely normal at this stage of the year. Design efforts and requests for quotations remain at a high level, and the Board remains optimistic of a satisfactory outcome for the full year in the Wireless division.

The Broadband business is now addressing 4G/LTE requirements for high capacity backhaul with its high frequency E-band radio modules, which are now in pilot production quantities for a small number of OEM customers. The E-band products enable the delivery of high data rate mobile services in dense urban areas, and are seen as providing a key element of network operators' strategies for serving the high demand levels placed by large numbers of simultaneous users running complex applications on smart-phones and similar devices. Broadband also continues to develop its microwave components for aerospace applications.

Taken together these two new revenue streams for Broadband are expected to build progressively over the coming year, more than offsetting further declines in demand for traditional radio modules.

This is expected to lead to a recovery in Broadband sales compared with FY2013.

However, despite cost reductions delivered in 2013, Broadband is anticipated to remain loss making in the short term.

Dividend

Whilst the Group has returned to profitability, the Board is mindful of its plans and requirements to achieve continued longer term growth, and has therefore decided to recommend no annual dividend in respect of the financial year just ended.

The increasing demand for mobile data supports our strategy of becoming a key equipment provider for the wireless telecommunications market. The Board is confident that our underlying technology and innovation will deliver long term growth. As our customer base and product offering broaden, we believe that we are well positioned to take advantage of the huge opportunities that exist for the provision of LTE/4G services.

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

Howard Ford
Chairman
22 July 2013

Summary

Filtronic has completed its second full year with the existing two trading segments, and it was a year of contrasting fortunes for the Wireless and Broadband businesses.

The Group has increased profitability and continues to execute its strategy for growth by expanding its addressable market with a broader range of products and a more diversified customer base.

Wireless volumes have continued to grow, allowing operating profits to increase from £0.7m to £6.4m.

Broadband has lost volumes in its traditional module markets and is yet to move into production volumes on its new millimetre wave markets. The resulting loss of £2.4m for the year has led to cost reduction exercises including a 16% reduction in staff numbers.

Operations

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

The Broadband business designs and manufactures customised microwave electronic sub assembly components that are integrated by OEMs into radios and by a leading radar manufacturer into its aerospace/security products. The OEM radios provide the backhaul links for telecom networks, particularly the mobile base station market. Filtronic expects to be a leading merchant supplier of high capacity E-band modules to this market.

Wireless sales growth has continued. During the second half a second subcontract manufacturer was successfully introduced to cope with high LTE interference mitigation filter volumes, and margins have been maintained. Whilst fixed costs have increased to fund further R&D projects, operating margin has been significantly increased to 20% from last year's 6%.

Broadband sales remained weak in the second half resulting in annual revenue of £8.1m – down £4.9m on the prior year which had been boosted by high end of life deliveries to Ceragon. The anticipated transition to high capacity E-band modules was delayed from Q4 of FY2013 into FY2014 but market interest in this product continues to grow. Despite weak sales in the second half, losses were contained through headcount reduction which is expected to deliver benefits in the coming year of £0.6m.

The Group continues to invest in new product development, investing £5.4m (2012 £4.8m) in R&D during the year. Following heavy investment in the E-band product in FY2012, Broadband R&D costs have reduced and Wireless now comprises 76% of the total R&D versus only 60% last year.

Operational cash outflows of £0.3m were heavily impacted by a temporary £4m Q4 working capital requirement which will reverse in the first quarter of FY2014. Combined with capital expenditure of £1.5m, this resulted in year-end net funds of £1.9m which was supported by a £4.0m borrowing facility.

Wireless Business

During the year, US network operators including, in particular, Sprint and more recently T-Mobile continued their LTE network rollout programmes addressing growing smart phone generated data traffic.

In the second half of the year the UK 4G auction led to high levels of LTE interference mitigation filter demand which will continue into the first half of FY2014.

The US network upgrade activity is expected to continue during the coming financial year but increasing activity in the European 4G/LTE market is anticipated as 3G networks will cease to provide satisfactory user experiences as smart-phone penetration increases.

Further opportunities for Wireless business growth in current and adjacent markets are being explored.

Broadband Business

Although the company expects to see increasing revenues and encouraging new opportunities in E-band and aerospace applications, revenue from Ceragon will continue to decline following an end of life purchase programme. Customer interest in our new products, particularly for the high capacity E-band product is building and is expected to produce revenue growth in Broadband during FY2014.

Employees

Following a restructuring in the Broadband business the staffing levels were reduced by 16 in June 2013. At 31 May 2013, the Group employed 175 people (2012 161) including 69 (2012 57) in the Wireless business. Overall, Group research and development costs increased by 12% during the year.

Alan Needle
Chief Executive Officer
22 July 2013

Results

The year ended 31 May 2013, generated revenue of £40.0m (2012 £26.1m), resulting in an operating profit before intangible amortisation, and exceptional items of £3.1m (2012 £0.8m). The Group reported a small profit of £0.3m for the period (2012 £0.04m), including a £2.4m (2012 £2.4m) amortisation of acquisition related intangibles. Revenue and operating results by segment (note 3) are the main key performance indicators used by the Group. The operating results are discussed in the Chief Executive's Operating Review, along with a review of the business.

Net finance income

The Group ended the year with net funds of £1.9m (2012 £3.7m) but generated immaterial net finance income (2012 £nil), reflecting low interest rates on reduced cash deposits.

Taxation

The tax credit of £0.05m includes a £0.6m deferred tax charge resulting from Wireless' use of past losses, largely offset by a £0.6m credit arising from a deferred tax liability release related to the intangible amortisation.

Capital expenditure

Capital expenditure of £1.5m (2012 £0.6m) included £0.9m for the Wireless business.

Research and development costs

Research and development costs of £5.4m (2012 £4.8m), which represented 13.5% (2012 18.2%) of revenue were expensed. No research and development costs were capitalised in the balance sheet.

Working capital

At 31 May 2013 net working capital was £9.0m (2012 £5.1m) reflecting the increased level of activity within the Wireless business during Q4. Net working capital comprised inventories of £5.4m (2012 £3.2m), receivables of £17.2m (2012 £10.3m) and payables of £13.6m (2012 £8.4m).

Cash flow

Cash outflow from operating activities of £0.3m (2012 £0.6m) was significantly impacted by working capital requirements of the LTE interference mitigation filter sales which drove the fourth quarter. The closing net funds at 31 May 2013 were £1.9m (2012 £3.7m).

Dividend

The Board does not recommend an annual dividend in respect of 2012/13 (2012 nil).

Michael Brennan
Chief Financial Officer
22 July 2013

Introduction

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

Market

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

Manufacturing

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

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

The Broadband business operates from a leased manufacturing location, located within the facility of one of our semiconductor suppliers. This lease expires on 31 March 2014 and the Broadband business is currently considering several options for its future location. The Wireless business relies for the manufacture of its products on a large Chinese turnkey manufacturer that provides favourable supply and financing terms. The loss of this supplier or a material change to supply terms could have a material adverse effect on the Group.

Technology

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

Our ability to remain competitive in terms of technology and product design is also underpinned by retaining key staff, the loss of whom could seriously impact the rate of introduction of new products and technologies.

Financial management

A large proportion of sales are denominated in either Sterling or US dollars with the cost base substantially in Sterling and Chinese Yuan. This may therefore create margin risks that may not be recoverable through price changes. This risk is mitigated to some extent by purchasing some input materials in US dollars.

We have sold four divisions of the Group in the past nine years and have provided warranties in support of these transactions. These warranties typically cover matters such as product liability, environmental impact risks on freehold property and tax risks. We may receive claims in future related to these current and future commitments.

Goodwill and Going Concern

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

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

Executive directors

Alan Needle (aged 58) has been an executive director since November 2010 and Chief Executive Officer since July 2012. Prior to the acquisition of the Wireless business he was Head of Wireless Infrastructure of Isotek Electronics Limited, had been an Executive Director of Filtronic plc until January 2006, and Chief Executive of the Wireless Infrastructure Division of Filtronic plc. He is a Chartered Engineer and a Fellow of the Institute of Electrical Engineers.

Michael Brennan (aged 53) was appointed as an executive director and Chief Financial Officer on 18 September 2009. Prior to joining Filtronic he was Finance Director of GTL Resources plc. Previously he held finance positions with Petroplus Refining Teesside Limited and various ICI businesses.

Non-executive directors

Howard Ford (aged 62) has been a non-executive director since 2008. He was appointed non-executive Chairman on 18 September 2009. He has many years of operational experience in the IT and telecoms sector with IBM Europe, BT/Cellnet and Equant Network Services where as Managing Director the company was listed on the New York Stock Exchange and the Paris Bourse until its takeover by France Telecom in 2005. He is currently the non-executive Chairman of Cambridge Semiconductor Limited, Light Blue Optics Limited, Pyreos Limited and ZBD Displays Limited and has also served on the Boards of a UK Charity and a number of privately held companies in the UK and France.

Graham Meek (aged 66) has been a non-executive director since 1999. Since 2006 he has been the senior non-executive director and is chairman of the audit committee. He is a non-executive director of Capital Gearing Trust plc and is vice-chairman of King's College Hospital NHS Foundation Trust.

Reginald Gott (aged 56) has been a non-executive director since 2006. He was appointed as chairman of the remuneration committee on 6 June 2008. He is Chief Executive of Resource Group Limited. From 2002 to 2008 he was an executive director of FKI plc, an international diversified engineering group, and from 2009 to 2012 he was Chief Executive of Nuaire Group. He has an extensive background in the machinery, automation and controls segments of the capital goods markets across Europe and North America.

Michael Roller (aged 48) was appointed as a non-executive director on 1 June 2013, and was Finance Director of Corin Group PLC until June 2012. Prior to that, he held a number of financial and corporate development roles with a wide range of multinational and smaller businesses including being finance director of a number of publicly listed companies. He qualified as a chartered accountant with KPMG.

The directors present their report and the audited financial statements for the year ended 31 May 2013.

Principal activities

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

Business review

The business review on pages 4 to 8 inclusive contains a review of the group's business performance and outlook. The business review includes the statutory requirements of the enhanced business review.

Financial results and dividend

The results for the year are set out in the income statement on page 26. The position at the end of the year is shown in the balance sheet on page 28.

The directors are not recommending payment of an annual dividend (2012 nil).

Research and development

Research and development costs of £5.4m (2012 £4.8m). Grant income of £0.1m (2012 £0.5m) was received to assist with part of these costs.

Directors and their interests

The directors of the company during the year were as follows:

Alan Needle
Michael Brennan
Howard Ford
Graham Meek
Reginald Gott
Hemant Mardia (Resigned 21 September 2012)

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

Michael Brennan retires by rotation and, being eligible, offers himself for re-election at the Annual General Meeting.

Michael Roller, having been appointed by the board on 1 June 2013, offers himself for election at the Annual General Meeting.

Graham Meek, having served on the Board for more than nine years, retires and being eligible, offers himself for re-election at the Annual General Meeting.

Directors' indemnity

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

Directors' conflicts of interest

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

Share capital

The company's share capital consists of 10p ordinary shares. The rights and obligations attached to each share are equal. There are no limitations on holding or transfer of the shares. The Board has no powers to issue or buy back the company's shares, other than those approved by the shareholders at the Annual General Meeting held on 21 September 2012.

Substantial shareholdings

The following shareholders have indicated a holding of 3% or more of the issued share capital of 96,997,993 10p ordinary shares as at 2 July 2013.

	Number of 10p ordinary shares	% of issued share capital
Aberforth Partners LLP	15,188,373	15.7%
Legal & General Investment Management Limited	11,343,172	11.7%
Aviva plc	8,039,925	8.3%
Prudential plc	4,064,046	4.2%
Professor John David Rhodes and connected parties	3,794,769	3.9%
Miton Income Opportunities Trust	3,455,696	3.6%
Henderson Global Investors	3,131,278	3.2%
	49,017,259	50.5%

Employees

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

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

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

Corporate & social responsibility

(i) Health and safety

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

(ii) Employee development

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

(iii) Employee communications

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

(iv) The environment

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

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

Political and charitable contributions

No contributions were made for political purposes. The group donated nil (2012 £450) to various charities.

Supplier payment policy

It is the group's policy to abide by the terms of payment agreed with suppliers in respect of the goods and services properly invoiced to the group. At 31 May 2013 trade payables of £13.6m represented 141 days' purchases, calculated in accordance with the requirements of the Companies Act.

Disclosure of information to the auditor

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

Responsibility statement of the directors

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

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

- the Chairman's Statement and Business Review which form part of the Report of the Directors, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties that they face.

Auditor

Our auditor, KPMG Audit Plc, has instigated an orderly wind down of business. The board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning their appointment will be put to the members at the Annual General Meeting.

By order of the Board
M Moynihan
Company Secretary
22 July 2013

The Combined Code on Corporate Governance

The Board of Directors of Filtronic plc is committed to maintaining high standards of corporate governance. The Board has prepared this report with reference to the Combined Code on Corporate Governance issued in June 2010 ("the Code"). For the year ended 31 May 2013 the directors confirm that the company has complied with the provisions of the Code.

The Board is currently comprised of six directors, the Chairman, three non-executives and two executive directors. The Chairman and two of the non-executive directors, Reginald Gott and Michael Roller, meet all of the specific criteria for independence set out in the Combined Code. The other non executive director, Graham Meek, does not meet all of the requirements for independence set out in the Code since he has been a director for more than nine years. However Mr Meek is considered to be independent in character and judgement. He is the senior independent director and provides valuable advice to the company as well as continuity.

Internal control

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

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

(a) Control environment and monitoring systems

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

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

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

(b) Major information systems

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

The Board approves, in aggregate, budgets and other performance targets, the components of which form the financial objectives for individual operating units. Performance against these targets is reported monthly and concentrates upon key performance indicators identified and updated as part of this budgetary control process. Financial forecasts are updated and reviewed monthly and include cash flow forecasts.

(c) Main control procedures

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

(d) Identification and evaluation of business risks

The company has clear principles and procedures that are appropriate to an electronics business of its size. These principles are designed to provide an environment of central leadership but with devolved operating responsibility as the framework for the exercise of accountability and control by the Board, its committees and executive management.

The Board directs activities in and allocates resources to the key areas of business development, product strategy, research and development, manufacturing and financial practice.

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

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

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

Constitution of the Board

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

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

A formal performance review of the Board, its committees and the directors is undertaken annually. This is executed by way of a written questionnaire completed by all Board members.

Board committees

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

The nominations committee

The nominations committee is chaired by Howard Ford, and the other members are the independent non executive directors: Graham Meek, Reginald Gott and Michael Roller (from 1 June 2013). The nominations committee's duties are confined to the nomination of appointments, re appointments and termination of employment or engagement of directors and the company secretary.

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

The remuneration committee

The remuneration committee is chaired by Reginald Gott. Graham Meek and Michael Roller (from 1 June 2013), the other independent non executive directors and Howard Ford, the Chairman of the Board, are members. The remuneration committee's responsibilities include ensuring that the remuneration and service contract terms of the executive directors and senior management are appropriate. The committee approves the grant of all share options and bonus arrangements. During the year the business discussed and considered at the Remuneration Committee included: approval of bonus payments, review of compensation structure of employees across the group and reviewing and agreeing on the terms and the documentation in respect of the issue of a further invitation to all UK employees under the Filtronic Share Save plan.

The remuneration committee met twice during the year.

The audit committee

The audit committee is chaired by Graham Meek, the senior non-executive director. The other members are Reginald Gott, Michael Roller (from 1 June 2013) and Howard Ford, the Chairman of the Board (who was independent on appointment in accordance with the Combined Code). Graham Meek has sufficient, recent and relevant financial experience. The audit committee meets at least twice a year. The committee's terms of reference are consistent with the current best practice for the size of the company and are available on request from the company secretary or on the company's website.

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

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

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

Attendance at Board meetings and committee meetings during the year ended 31 May 2013 was as follows:

Directors Attendance Table - FY2013

	Board	Audit	Remuneration	Nominations
Director attendance	12	2	2	4
Executives				
Alan Needle	12	n/a	n/a	n/a
Hemant Mardia (Resigned 21 September 2012)	2	n/a	n/a	n/a
Michael Brennan	11	n/a	n/a	n/a
Non-executives				
Howard Ford (Chairman)	12	2	2	4
Reginald Gott	12	2	2	4
Graham Meek	12	2	2	4

Relations with investors

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

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

Going concern

The group's business, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 4 to 8. The financial position of the group, its cash flows, and its liquidity position are described in the Financial Review on page 6. Note 36 to the financial statements describes and quantifies exposures to liquidity, credit, interest rate and foreign currency risk and how they are managed. Also in note 36 capital management is described.

At 31 May 2013 the group had a cash balance of £2.4m and interest bearing borrowings of £0.5m.

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

Composition of the remuneration committee

During the period 1 June 2012 to 31 May 2013 the remuneration committee consisted of the following non-executive directors:

Reginald Gott (Chairman)
Graham Meek
Howard Ford

The committee receives advice in its deliberations concerning the remuneration of the executive directors from the Chief Executive Officer, Alan Needle. The committee's recommendations have been accepted by the Board without amendment.

Compliance

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

Policy on remuneration of executive directors and senior executives

(a) Total level of remuneration

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

(b) The main components

The company's policy is to structure remuneration packages to align the interests of employees with those of shareholders.

The main components of remuneration are:

(i) Salary
Salary for each executive is determined by the remuneration committee taking into account the performance and responsibilities of the individual. Electronic and electrical engineering is an international industry within which there is a clear market in executive talent. The overriding factor in determining executive remuneration is market forces. Salaries are normally reviewed on 1 July each year.

(ii) Executive directors bonuses
The executive directors were participants in an annual bonus scheme during the year under which a maximum of 50% of salary was payable to Alan Needle and Michael Brennan subject to profit and cash targets and personal targets, the achievements of which have been assessed by the remuneration committee.

The following bonuses were awarded in the year to Michael Brennan £38,000 (2012: £15,000) and Alan Needle £90,000 (2012: £15,000).

No non-recurring bonus arrangements were put in place in the year ended 31 May 2013.

(iii) Bonus scheme
The remuneration committee has agreed an approach for management incentives for the year ending 31 May 2014 of an annual bonus for performance in the year, based on profit and cash targets. The level of up to 50% of annual salary for executive directors and up to 25% of annual salary for senior managers has been agreed for each of these bonuses. The annual bonus will be assessed against the achievement of profit and cash targets in the year ended 31 May 2014.

(iv) Performance share plan

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

(v) Sharesave plan

A sharesave plan was approved by shareholders at the Annual General Meeting in September 2008. All employees including executive directors are eligible. There are currently three active schemes after the first scheme matured in February 2012. A second offer under the sharesave plan was made in November 2010, a third offer under the sharesave plan was made in May 2012 and a fourth offer under the sharesave plan was made in May 2013.

(c) Company policy on contracts of service

Alan Needle and Michael Brennan, the executive directors, have rolling service contracts. Under Alan Needle's service contract the notice period for termination by either party is twelve months. Under Michael Brennan's service contract the notice period for termination by either party is six months. There are no specific compensation commitments for early termination in the service contracts.

(d) Company pensions policy

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

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

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

(e) Company policy on external appointments

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

Non-executive directors agreements for services and remuneration

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

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

The information on pages 20 and 21 has been audited.

Directors' remuneration

	Salary or fees	Bonuses	Benefits	Total remuneration excluding pension contributions	
	2013 £000	2013 £000	2013 £000	2013 £000	2012 £000
Executives					
Alan Needle	179	90	9	278	126
Hemant Mardia (Resigned 21 September 2012)	78	–	3	81	219
Michael Brennan	123	38	8	169	124
Non-executives					
Howard Ford	70	–	1	71	71
Graham Meek	40	–	–	40	40
Reginald Gott	40	–	–	40	40
Total 2013	530	128	21	679	620
Total 2012	535	57	28	620	

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

Included in the above is an additional payment of £20,000 over and above his salary which was made to Hemant Mardia on leaving the company.

Directors' pension benefits

Company's pension contributions to defined contribution schemes.

	Pension contributions	
	2013 £000	2012 £000
Alan Needle	14	10
Hemant Mardia	5	15
Michael Brennan	10	8
	29	33

Directors' shareholdings

	2013	2012
Alan Needle	2,196,142	2,196,142
Michael Brennan	98,165	53,733
Howard Ford	93,626	93,626
Reg Gott	102,159	102,159
Graham Meek	89,722	89,722
Hemant Mardia (resigned 21 September 2012)	n/a	382,525
	2,579,814	2,917,907

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

Hemant Mardia resigned as a director on 21 September 2012. At 31 May 2012 he held 382,525 shares.

On 30th August 2012, the Company purchased shares in the market and transferred 134,696 of these shares to Hemant Mardia and 44,432 of these shares to Michael Brennan at 29p, this being the market price of the Ordinary Shares on the vesting date for shares awarded under the 2009 Performance Share Plan.

Directors' interests in share awards

Performance share plan	Vesting date	2012	Vested during the year	Cancelled during the year	2013
Hemant Mardia	29 July 2012	378,239	(378,239)	–	–
	29 November 2013	257,500	–	(257,500)	–
Michael Brennan	2 September 2012	108,108	(108,108)	–	–
	29 November 2013	114,286	–	–	114,286
		858,133	(486,347)	(257,500)	114,286

Hemant Mardia's share awards included those of his wife, who was employed by the group until 31 May 2012.

Directors' interests in share options

Sharesave plan	Exercise period	Option price	2012	Granted during the year	Cancelled during the year	2013
Hemant Mardia	01/11/2013 – 30/04/2014	34.2p	8,842	–	(8,842)	–
Michael Brennan	01/05/2015 – 31/10/2015	22.6p	30,106	–	–	30,106
	01/05/2016 – 31/10/2016	56.4p	–	3,893	–	3,893
Total all directors			38,948	3,893	(8,842)	33,999

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

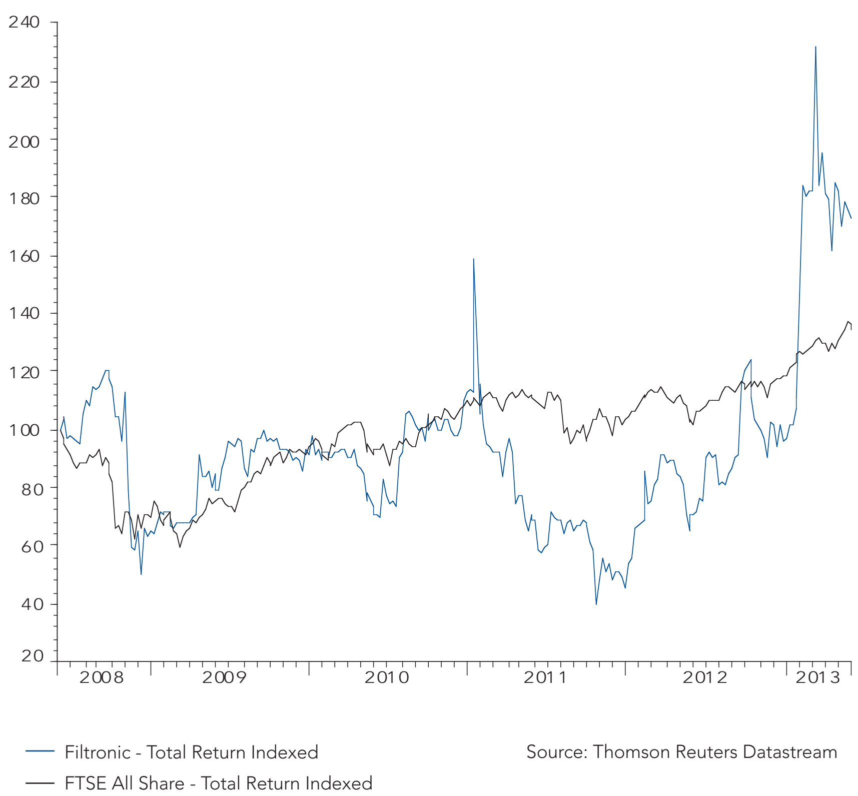
The closing middle market share price on 31 May 2013 was 62p, and on 31 May 2012 it was 25p. The range of closing middle market share prices during the year ended 31 May 2013 was 83p - 25p.

There were no changes to the directors' interests between 31 May 2013 and 22 July 2013. The company's register of directors' interests which is open to inspection at the registered office contains full details of directors' shareholdings.

Performance graph

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

Total Shareholder Return
1 June 2008 to 31 May 2013 Weekly Indexed



Approved by the Board on 22 July 2013 and signed on its behalf by

M Moynihan
Company Secretary

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

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Independent auditor's report to the members of Filtronic plc

We have audited the financial statements of Filtronic plc for the year ended 31 May 2013 set out on pages 26 to 64. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 May 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 17, in relation to going concern;
- the part of the Corporate Governance Statement on page 14 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

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

Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW
22 July 2013

	note	Group 2013 £000	Group 2012 £000
Revenue		**39,976**	26,082
Operating profit before amortisation and exceptional items		**3,051**	768
Amortisation of intangibles		**(2,419)**	(2,419)
Exceptional items	5	**(392)**	–
Operating profit/(loss)	4	**240**	(1,651)
Finance (costs)/income - net	11	**(2)**	16
Profit/(loss) before taxation		**238**	(1,635)
Taxation	12	**46**	1,670
Profit for the period		**284**	35
Basic earnings per share	13	**0.29p**	0.04p
Diluted earnings per share	13	**0.29p**	0.04p

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

The above results are all as a result of continuing operations.

	Group	
	2013	2012
	£000	£000
Profit for the period	**284**	35
Currency translation movement arising on consolidation	**54**	16
	54	16
Total comprehensive income for the period	**338**	51

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

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

		Group	
		2013	2012
	note	£000	£000
Non-current assets			
Goodwill and other intangibles	15	8,072	10,491
Property, plant and equipment	16	3,005	2,375
		11,077	12,866
Current assets			
Inventories	17	5,356	3,198
Trade and other receivables	18	17,237	10,277
Deferred tax	19	302	887
Cash and cash equivalents		2,375	3,745
		25,270	18,107
Total assets		36,347	30,973
Current liabilities			
Trade and other payables	20	13,611	8,422
Provision	21	605	565
Deferred tax	19	556	600
Deferred income	22	229	267
Interest bearing borrowings	35	496	–
		15,497	9,854
Non-current liabilities			
Deferred tax	19	556	1,162
Deferred income	22	96	116
		652	1,278
Total liabilities		16,149	11,132
Net assets		20,198	19,841
Equity			
Share capital	24	9,700	9,681
Share premium	25	5,111	5,083
Translation reserve	26	38	(16)
Retained earnings	28	5,349	5,093
Total equity		20,198	19,841

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

Company member 2891064
Approved by the Board on 22 July 2013 and signed on its behalf by

Alan Needle
Chief Executive Officer

Consolidated Statement of Changes in Equity

for the year ended 31 May 2013

	Group	
	2013	2012
	£000	£000
Opening total equity	**19,841**	18,830
Total comprehensive income for the period	**338**	51
New shares issued (net of issue costs)	**47**	794
Share-based payments	**163**	166
Exercise of share awards	**(191)**	–
Closing total equity	**20,198**	19,841

Company Statement of Changes in Equity

for the year ended 31 May 2013

	Company	
	2013	2012
	£000	£000
Opening total equity	**18,994**	18,395
Total comprehensive income for the period	**(656)**	(315)
New shares issued, net of issue costs	**47**	794
Share-based payments	**87**	120
Exercise of share awards	**(191)**	–
Closing total equity	**18,281**	18,994

	note	Group 2013 £000	2012 £000
Cash flows from operating activities			
Profit for the period		284	35
Taxation		(46)	(1,670)
Finance costs/(income) - net		2	(16)
Operating profit/(loss)	34	240	(1,651)
Share-based payments		163	166
Profit on disposal of plant and equipment		(24)	(5)
Depreciation		875	697
Amortisation of intangibles		2,419	2,419
Movement in inventories		(2,158)	(1,521)
Movement in trade and other receivables		(6,960)	(4,514)
Movement in trade and other payables		5,189	2,937
Movement in provision		40	128
R&D tax credit received		–	467
Change in deferred income including government grants		(58)	258
Net cash used in operating activities	34	(274)	(619)
Cash flows from investing activities			
Interest received		8	16
Interest paid		(10)	–
Acquisition of plant and equipment		(1,532)	(579)
Proceeds on sale of assets		55	8
Net cash used in investing activities	34	(1,479)	(555)
Cash flows from financing activities			
Proceeds from issue of share capital (net of issue costs)		–	737
Proceeds from exercise of share options		47	57
Exercise of share awards		(191)	–
Movement in interest bearing borrowings		496	–
Net cash from financing activities	34	352	794
Movement in cash and cash equivalents		(1,401)	(380)
Currency exchange movement		31	5
Opening cash and cash equivalents		3,745	4,120
Closing cash and cash equivalents		2,375	3,745

		Company	
		2013	2012
	note	**£000**	£000
Non-current assets			
Investments in subsidiaries	14	**10,564**	10,564
Current assets			
Trade and other receivables	18	**10,792**	10,405
Cash and cash equivalents		**118**	1,193
		10,910	11,598
Total assets		**21,474**	22,162
Current liabilities			
Trade and other payables	20	**3,193**	3,168
Total liabilities		**3,193**	3,168
Net assets		**18,281**	18,994
Equity			
Share capital	24	**9,700**	9,681
Share premium	25	**5,111**	5,083
Retained earnings	28	**3,470**	4,230
Total equity		**18,281**	18,994

Approved by the Board on 22 July 2013 and signed on its behalf by

Company member 2891064

Alan Needle
Chief Executive Officer

	Company 2013 £000	Company 2012 £000
Cash flows from operating activities		
Loss for the period	**(656)**	(315)
Finance costs	**10**	–
Finance income	**(38)**	(110)
Operating loss	**(684)**	(425)
Share-based payments	**87**	120
Movement in trade and other receivables	**(389)**	(2,592)
Movement in trade and other payables	**27**	233
Net cash used in operating activities	**(959)**	(2,664)
Cash flows from investing activities		
Interest received	**8**	16
Interest paid	**(10)**	–
Net cash (used in)/from investing activities	**(2)**	16
Cash flows from financing activities		
Proceeds from issue of share capital (net of issue costs)	**–**	737
Proceeds from exercise of share options	**47**	57
Exercise of share awards	**(191)**	–
Net cash (used in)/from financing activities	**(144)**	794
Decrease in cash and cash equivalents	**(1,105)**	(1,854)
Currency exchange movement	**30**	94
Opening cash and cash equivalents	**1,193**	2,953
Closing cash and cash equivalents	**118**	1,193

1 Accounting policies

Reporting entity

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

Basis of preparation

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

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

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

The accounting policies have been applied consistently throughout the group.

Basis of consolidation

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

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

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

Foreign currency translation

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

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

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

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

Financial liabilities

Other current financial liabilities comprise borrowings and trade and other payables, and are recognised initially at fair value and subsequently measured at amortised cost.

Forward currency contracts

Forward currency contracts are held at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the consolidated income statement.

1 Accounting policies (continued)

Foreign currency translation (continued)

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

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

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

Revenue

Revenue is recognised for goods and services during the periods when the risks and rewards of ownership have been transferred to the customer, there is no continuing management involvement and the amount of revenue can be measured reliably. Revenue excludes any related value added or sales tax.

Research and development

All research costs are expensed as incurred.

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

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

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

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

Operating leases

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

1 **Accounting policies** (continued)

Share-based payments

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

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

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

Exceptional items

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

Business combinations

Business combinations are accounted for by applying the acquisition method.

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

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

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

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

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

Investments in subsidiaries

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

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

1 Accounting policies (continued)

Goodwill

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

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

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

Other intangible assets

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

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

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

- Intangibles relating to core technology and know-how 4.5 years.

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

Impairment charges

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

1 **Accounting policies** (continued)

Impairment charges (continued)

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

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

Property, plant and equipment

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

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

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

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

Inventories

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

Trade and other receivables

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

Cash and cash equivalents

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

Defined contribution pension schemes

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

1 **Accounting policies** (continued)

Deferred taxation

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

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

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

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

Grants

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

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

Warranty provision

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

Share capital

Ordinary shares issued are classified as share capital in equity.

Dividends

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

1 **Accounting policies** (continued)

Accounting developments

(a) A number of new standards, amendments to standards and interpretations are effective for the year ended 31 May 2013. These are either not relevant or have no material impact on the Group.

(b) There are also a number of new standards, amendments to standards and interpretations that are effective for financial statements after this reporting period, but the Group has not adopted them early. None of these is expected to have a material impact on the results or financial position of the Group.

2 **Accounting estimates and judgements**

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

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

Goodwill and other intangibles impairment

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

2 Accounting estimates and judgements (continued)

Inventory

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

Deferred tax asset

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

Warranty provision

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

Capitalisation of Development Costs

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

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

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

3 Segmental analysis

Operating Segments

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

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

The Group operates in two trading business segments.

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

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

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

	Broadband		Wireless		Central Services		Inter Company Elimination		Total	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Revenue	**8,127**	13,036	**31,849**	13,122	**–**	131	**–**	(207)	**39,976**	26,082
Finance income	**–**	–	**–**	–	**8**	16	**–**	–	**8**	16
Finance costs	**–**	–	**–**	–	**(10)**	–	**–**	–	**(10)**	–
Depreciation and amortisation	**621**	592	**254**	105	**–**	–	**–**	–	**875**	697
Reportable segment profit/(loss) before exceptional items	**(2,449)**	601	**6,378**	720	**(878)**	(422)	**–**	(131)	**3,051**	768
Reportable segment profit/(loss) before income tax	**(2,720)**	601	**6,378**	720	**(1,001)**	(406)	**–**	(131)	**2,657**	784
Reportable segment assets	**7,293**	9,755	**20,499**	9,434	**16,734**	19,611	**–**	–	**44,526**	38,800
Capital expenditure	**595**	426	**937**	153	**–**	–	**–**	–	**1,532**	579
Reportable segment liabilities	**8,298**	8,049	**16,824**	12,850	**1,757**	611	**–**	–	**26,879**	21,510

3 **Segmental analysis** (continued)

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

	2013 £000	2012 £000
Depreciation and amortisation		
Reportable segment totals	875	697
Adjustments/amortisation of intangibles	2,419	2,419
Consolidated depreciation and amortisation	3,294	3,116
Profit/(loss) before taxation		
Total profit for reportable segments	2,657	784
Group/unallocated	(2,419)	(2,419)
Consolidated profit/(loss) before taxation	238	(1,635)
Assets		
Total assets for reportable segments	44,526	38,800
Inter company	(10,730)	(10,378)
Group/unallocated	2,551	2,551
Consolidated total assets	36,347	30,973
Liabilities		
Total liabilities for reportable segments	26,879	21,510
Inter company	(10,730)	(10,378)
Consolidated total liabilities	16,149	11,132

3 Segmental analysis (continued)

Geographical information

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

Revenue by destination

	2013 £000	2012 £000
United Kingdom	14,083	3,500
Europe	7,880	12,446
Americas	6,001	5,589
Rest of the world	12,012	4,547
	39,976	26,082

Split of non-current assets by location

	2013 £000	2012 £000
United Kingdom	8,016	9,489
Americas	2,746	3,377
Rest of the world	315	-
	11,077	12,866

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

4 Operating profit/(loss)

	note	2013 £000	2012 £000
Revenue		**39,976**	26,082
Other operating income		**(58)**	(476)
Raw materials and consumables		**23,047**	13,429
Wages and salaries		**7,417**	6,031
Social security costs		**654**	567
Pension costs		**382**	339
Share-based payments	31	**125**	166
Exceptional redundancy costs		**180**	-
Staff costs		**8,758**	7,103
Amortisation of intangibles		**2,419**	2,419
Depreciation		**875**	697
Depreciation and amortisation		**3,294**	3,116
Other operating charges		**4,695**	4,561
Operating costs		**39,736**	27,733
Operating profit/(loss)		**240**	(1,651)

The operating profit/(loss) is stated after the exceptional items in note 5.

Other operating income represents the amount claimed from the Technology Strategy Board (TSB) towards a research and development programme.

5 Exceptional items

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

	2013 £000	2012 £000
Management Reorganisation	212	–
Redundancy costs	180	–
	392	–

During the year the previous Chief Executive Officer, Hemant Mardia, left the company. The costs relating to reorganising the management structure amounted to £212,000.

As part of a cost reduction programme in Filtronic Broadband Limited 16 employees were made redundant at a cost of £180,000.

6 Operating items

	2013 £000	2012 £000
Operating profit/(loss) is stated after charging:		
Research and development costs	5,432	4,764
Operating lease rentals	194	179

7 Auditors' remuneration

The company auditor is KPMG Audit Plc. The auditor's remuneration was as follows:

	2013 £000	2012 £000
Company auditors:		
Audit of the group and company financial statements	10	10
Company auditors and their associates:		
Audit of subsidiaries financial statements pursuant to legislation	39	37
Other services pursuant to such legislation	7	7
Taxation services	16	11
Other services	5	–
	77	65

8 Employees

The average number of employees comprised:

	2013 Number	2012 Number
Manufacturing	**93**	79
Research and development	**62**	56
Sales	**2**	2
Administration	**16**	15
	173	152

9 Compensation of directors

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

	2013 £000	2012 £000
Salary or fees	**530**	535
Bonuses	**128**	57
Benefits	**21**	28
Total remuneration excluding pension contributions and share-based payments	**679**	620
Pension contributions	**29**	33
Share-based payments	**30**	91
	738	744

The directors are related parties.

10 Related party transaction

Preeti Mardia, the wife of previous Chief Executive Officer, Hemant Mardia, ceased employment with the company on 31 May 2012. During the first quarter of the year she undertook a small amount of consultancy work amounting to £22,200.

In the comparative period she was an employee throughout the year and her total emoluments including payments on leaving the group totalled £184,755.

11 Finance (costs)/income - net

	2013 £000	2012 £000
Interest income	**8**	16
Interest costs of borrowing	**(10)**	–
	(2)	16

12 Taxation

The reconciliation of the effective tax rate is as follows:

	2013 £000	2012 £000
Profit/(loss) before taxation	**238**	(1,635)

		2013 £000		2012 £000
Profit/(loss) before taxation multiplied by standard rate of corporation tax in the UK	24%	**57**	26%	(419)
Disallowable items	12%	**28**	(7%)	120
Tax relief for share options exercised	(25%)	**(59)**	–	–
Income not taxable	(1%)	**(3)**	–	–
Deferred tax not recognised	102%	**243**	(6%)	90
Trading losses utilised	104%	**(248)**	23%	(372)
Impact of rate change on deferred liability	(17%)	**(41)**	18%	(290)
Recognition of tax losses	–	**–**	28%	(466)
Adjustment in respect of prior years - R&D credit	–	**–**	21%	(353)
Foreign tax not at UK rate	15%	**36**	(1%)	20
Deferred tax liability write off	(8%)	**(19)**	–	–
Recognition of capital allowances	(17%)	**(40)**	–	–
Taxation	(19%)	**(46)**	102%	(1,670)

13 Earnings per share

	Group	
	2013	2012
	£000	£000
Profit for the period	**284**	35
	000	000
Basic weighted average number of shares	**96,951**	95,843
Dilution effect of share options	**592**	-
Dilution effect of share awards	**70**	692
Diluted weighted average number of shares	**97,613**	96,535
Basic earnings per share	**0.29p**	0.04p
Diluted earnings per share	**0.29p**	0.04p

14 Investments in subsidiaries

	Company
	Investments in subsidiaries £000
Cost	
At 1 June 2011, 31 May 2012 and 31 May 2013	**21,110**
Impairment	
At 1 June 2011, 31 May 2012 and 31 May 2013	10,546
Carrying amount at 1 June 2011, 31 May 2012 and 31 May 2013	**10,564**

The company's subsidiaries are related parties.

The subsidiaries at 31 May 2013, which were directly owned by Filtronic plc, were as follows:

Name of subsidiary	Country of incorporation	Description of equity held	Proportion held	Activity
Filtronic Broadband Limited	UK	1p ordinary shares	100%	Design and manufacture of microwave products for telecommunication systems
Filtronic Holdings UK Limited	UK	£1 ordinary shares	100%	Holding company
Isotek (Holdings) Limited	UK	1p ordinary shares	100%	Holding company
Owned by Isotek (Holdings) Limited:				
Filtronic Wireless Limited	UK	1p ordinary shares	100%	Design and manufacture of Filtronic products for telecommunication systems
Filtronic Wireless Inc	USA	$1 ordinary shares	100%	Design and manufacture of Filtronic products for telecommunication systems
Isotek Limited	UK	1p ordinary shares	100%	Dormant company
Owned by Isotek Electronics Limited:				
Isotek Hong Kong Holdings Limited	Hong Kong	HK $1 ordinary shares	100%	Holding company
Owned by Isotek Hong Kong Holdings Limited:				
Isotek Suzhou	China	USD $350,000 paid in share capital	100%	Design and manufacture of Filtronic products for telecommunication systems
Filtronic Wireless Suzhou	China	USD $162,000 paid in share capital	100%	Design and manufacture of Filtronic products for telecommunication systems

15 Goodwill and other intangibles

	(Restated) Goodwill £000	Other intangibles (core technology) £000	Total £000
Cost			
At 1 June 2011, 31 May 2012 and 31 May 2013	**3,235**	**10,884**	**14,119**
Amortisation			
At 1 June 2011	–	1,209	1,209
Provided in year	–	2,419	2,419
At 31 May 2012	–	3,628	3,628
Provided in year	–	2,419	2,419
At 31 May 2013	**–**	**6,047**	**6,047**
Carrying amount at 1 June 2011	3,235	9,675	12,910
Carrying amount at 31 May 2012	3,235	7,256	10,491
Carrying amount at 31 May 2013	**3,235**	**4,837**	**8,072**

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

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

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

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

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

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

16 Property, plant and equipment

	Group
	Plant and equipment £000
Cost	
At 1 June 2011	6,920
Additions	579
Disposals	(30)
Currency translation movement	17
At 31 May 2012	7,486
Additions	1,532
Disposals	(108)
Currency translation movement	5
At 31 May 2013	**8,915**
Depreciation and impairment	
At 1 June 2011	4,435
Depreciation	697
Disposals	(27)
Currency translation movement	6
At 31 May 2012	5,111
Depreciation	875
Disposals	(78)
Currency translation movement	2
At 31 May 2013	**5,910**
Carrying amount at 1 June 2011	2,485
Carrying amount at 31 May 2012	2,375
Carrying amount at 31 May 2013	**3,005**

17 Inventories

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Raw materials	**3,940**	2,266	**–**	–
Work in progress	**669**	480	**–**	–
Finished goods	**747**	452	**–**	–
	5,356	3,198	**–**	–
Inventories are stated net of provision	**1,542**	1,388	**–**	–

18 Trade and other receivables

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Trade receivables	**16,514**	9,557	**–**	–
Group receivables	**–**	–	**10,729**	10,379
Other receivables and prepayments	**723**	720	**63**	26
	17,237	10,277	**10,792**	10,405
Trade receivables are stated net of provision	**16**	–	**–**	–

19 Deferred tax

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Deferred tax liability	**1,112**	1,762	**–**	–

The deferred tax liability largely relates to the intangible assets arising upon acquisition of the Wireless business. The liability at acquisition was £2,938,000 and at 31 May 2012 was £1,741,000. £629,000 has been released to the income statement during the year (2012: £871,000).

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

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Deferred tax assets	**302**	887	**–**	–

The deferred tax assets relate to the recognition of tax losses and capital allowances in the Wireless business.

19 Deferred tax (continued)

Deferred tax assets which have not been recognised:

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Depreciation in advance of capital allowances	**1,831**	1,734	**448**	402
Tax losses carried forward	**11,550**	11,704	**11,216**	11,704
Share options deferment	**80**	–	**–**	–
	13,461	13,438	**11,664**	12,106

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

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. The effect of these rate changes are reflected in the figures above. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. These changes were not substantively enacted at 31 May 2013 and therefore their impact is not reflected in the figures above.

20 Trade and other payables

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Trade payables	**9,906**	6,994	**64**	51
Group payables	**–**	–	**2,551**	2,551
Other payables and accruals	**3,698**	1,428	**578**	566
Forward exchange contracts	**7**	–	**–**	–
	13,611	8,422	**3,193**	3,168

21 Provision

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Warranty provision				
Opening balance	**565**	437	**–**	–
Used during the year	**(126)**	(18)	**–**	–
Released unused during the year	**(94)**	(207)	**–**	–
Charge for the year	**260**	353	**–**	–
Closing balance	**605**	565	**–**	–

22 Deferred income

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

23 Pension costs

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Defined contribution schemes	**432**	339	**34**	29

24 Share capital

	Group and Company Ordinary shares of 10p each Issued and fully paid Number	£000
At 1 June 2011	92,873,093	9,287
Shares issued in year	3,941,900	394
At 1 June 2012	96,814,993	9,681
Shares issued in year	183,000	19
At 31 May 2013	**96,997,993**	**9,700**

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

The group issued 183,000 shares due to employees exercising share options from SAYE Scheme 1.

25 Share premium

	Group and Company
At 1 June 2012	5,083
Premium on share issue	28
At 31 May 2013	**5,111**

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

26 Translation reserve

	Group £000
At 1 June 2012	(16)
Currency translation movement arising on consolidation	54
At 31 May 2013	**38**

27 Dividends

The directors are not proposing to pay a dividend for the year ended 31 May 2013 (2012: Nil).

28 Retained earnings

	Group £000	Company £000
At 31 May 2011	4,892	4,425
Profit/(loss) for the period	35	(315)
Share-based payments	166	120
At 31 May 2012	5,093	4,230
Profit/(loss) for the period	284	(656)
Share-based payments	163	87
Exercise of share awards	(191)	(191)
At 31 May 2013	**5,349**	**3,470**

29 Share options

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

Sharesave Plan – Scheme 1

	Weighted average exercise price 2013	Number of options 2013	Weighted average exercise price 2012	Number of options 2012
Outstanding at the beginning of the period	25p	276,450	25p	533,100
Exercised in year	25p	(183,000)	25p	(225,750)
Cancelled during the period	25p	–	25p	(30,900)
Lapsed during the period	25p	(93,450)	25p	–
Outstanding at the end of the period	25p	–	25p	276,450
Exercisable at the end of the period		–		276,450

The first sharesave plan was offered to employees in February 2009.

This sharesave plan has now closed. The share options that were not exercised by employees by October 2012 have now lapsed.

29 Share options (continued)

Sharesave Plan – Scheme 2

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2013	**2013**	2012	2012
Outstanding at the beginning of the period	**34.2p**	**113,677**	34.2p	287,773
Cancelled during the period	**34.2p**	**(15,157)**	34.2p	(174,096)
Outstanding at the end of the period	**34.2p**	**98,520**	34.2p	113,677
Exercisable at the end of the period		**–**		–

The second sharesave plan was offered to employees in November 2010.

The options outstanding at 31 May 2013 for Scheme 2 have a weighted average remaining contractual life of 0.9 years.

The share options granted during the year to May 2011 have an exercise price of 34.2p and have an exercise period from 1 November 2013 to 30 April 2014.

Sharesave Plan – Scheme 3

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2013	**2013**	2012	2012
Outstanding at the beginning of the period	**22.6p**	**1,040,478**	22.6p	–
Granted during the period	**22.6p**	**–**	22.6p	1,043,026
Cancelled during the period	**22.6p**	**(50,973)**	22.6p	(2,548)
Outstanding at the end of the period	**22.6p**	**989,505**	22.6p	1,040,478
Exercisable at the end of the period		**–**		–

The third sharesave scheme was offered to employees in April 2012.

The options outstanding at 31 May 2013 for Scheme 3 have a weighted average remaining contractual life of 2.5 years.

The share options granted during the year to May 2012 have an exercise price of 22.6p and have an exercise period from 1 May to 31 October 2015.

29 Share options (continued)

Sharesave Plan – Scheme 4

	Weighted average exercise price	Number of options
	2013	**2013**
Outstanding at the beginning of the period	**56.4p**	**–**
Granted during the period	**56.4p**	**278,848**
Outstanding at the end of the period	**56.4p**	**278,478**
Exercisable at the end of the period		**–**

The fourth sharesave scheme was offered to employees in March 2013.

The options outstanding at 31 May 2013 for Scheme 4 have a weighted average remaining contractual life of 3.5 years.

The share options granted during the year to May 2013 have an exercise price 54.6p and have an exercise period for 1 May to 31 October 2016.

Management Incentive Plan

Under this plan some managers were granted options vesting in three years time. At the end of the three years the employees' options have an exercise price of 18p and 23.5p. The exercise price for an option was the middle market quotation of Filtronic plc's ordinary shares as derived from the Official List of the United Kingdom Financial Services Authority on the dealing day immediately prior to the plan offer date.

	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options
	2013	**2013**	2012	2012
Outstanding at beginning of the period	**21.8p**	**454,428**	21.9p	–
Granted during the period	**21.8p**	**–**	21.9p	454,428
Cancelled during the period	**21.8p**	**(25,751)**	21.9p	–
Outstanding at the end of the period	**21.8p**	**428,677**	21.9p	454,428
Exercisable at the end of the period		**–**		–

The share options awarded during the year to 31 May 2012 have a weighted average remaining contractual life of 1.25 years.

30 Share awards

	Number of share awards 2013	2012
Performance Share Plan		
Outstanding at the beginning of the period	1,019,471	1,067,097
Exercised during the year	(569,389)	–
Cancelled during the year	(292,139)	(47,626)
Outstanding at the end of the period	157,943	1,019,471

The performance targets set as part of the first share award plan were successfully met and all members of the plan were awarded 100% of the shares they were granted. The company exercised the right to issue the share award plan in cash and purchase the shares in the market rather than issue new shares.

The share awards awarded during the year to 31 May 2011 have a weighted average remaining contractual life of 0.5 years.

Under the plan in the year to 31 May 2011 share awards were made to executive directors and senior managers. The vesting of the share awards is subject to performance targets based on growth in earnings per share (EPS) over a three year period. If EPS grows such that for the year to 31 May 2013 it exceeds a figure corresponding to £5.5m of earnings before intangible amortisation, exceptionals, interest and tax, then 25% of the awarded shares will vest. If EPS grows such that for the year to 31 May 2013 it exceeds a figure corresponding to £7.0m of earnings before intangible amortisation, exceptionals, interest and tax, then 100% of the awarded shares will vest. If EPS grows to be between these two targets then the awarded shares will vest on a sliding scale between 25% and 100% of the awarded shares.

31 Share-based payments

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Share options expense	60	48	3	3
Share awards expense	65	118	63	117
Exceptional share based payments	38	–	21	–
	163	166	87	120
Exercise of share awards	(191)	–	(191)	–

The share options expense was the fair value of the share options at the date of grant spread over the expected vesting period of the share options. The fair value of the share options at the date of grant was measured using the Black-Scholes model.

The company exercised the right to issue the share award plan in cash and purchase the shares in the market rather than issue new shares. As a result of this a charge of £191,000 was posted to retained earnings within equity.

31 Share-based payments (continued)

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

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Number of share options granted	**278,848**	982,814	**7,786**	60,212
Weighted average share price	**70.5p**	28.25p	**70.5p**	28.25p
Weighted average exercise price	**56.4p**	22.6p	**56.4p**	22.6p
Expected volatility	**60%**	60%	**60%**	60%
Expected life	**3.0 years**	3.1 years	**3.0 years**	3.1 years
Risk free interest rate	**3%**	3%	**3%**	3%
Weighted average fair value	**21p**	12p	**21p**	12p

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

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

32 Operating lease commitments

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

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Less than one year	**319**	177	**111**	111
Between one and five years	**701**	131	**2**	82
More than five years	**346**	–	**–**	–
	1,366	308	**113**	193

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

During the year the group entered into a ten year lease in Yeadon, West Yorkshire for a property occupied by Filtronic Wireless Ltd which also serves as the registered office for Filtronic plc.

Filtronic Wireless Inc has also signed a new five year lease to remain in their premises in Maryland, USA.

33 Capital expenditure commitments

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Capital expenditure contracted for at the balance sheet date but not provided in the financial statements	**7**	256	**–**	–

34 Note to the consolidated cash flow statement

	Group	
	2013	2012
	£000	£000
Operating profit/(loss)	**240**	(1,651)
Net cash used in operating activities	**(274)**	(619)
Net cash used in investing activities	**(1,479)**	(555)
Net cash from financing activities	**352**	794

35 Analysis of net funds

	1 June 2012	Cash Flow	Other Changes	**31 May 2013**
Cash and cash equivalents	3,745	(1,401)	31	**2,375**
Interest bearing borrowings	–	(496)	–	**(496)**
	3,745	(1,897)	31	**1,879**

Reconciliation of cash flow to movement in net funds

	2013	2012
	£000	£000
Movement in cash and cash equivalents	**(1,401)**	(380)
Cash flow from increase in debt financing	**(496)**	–
Effect of exchange rate fluctuations	**31**	5
Movement in net funds	**(1,866)**	(375)
Net funds at 1 June	**3,745**	4,120
Net funds at 31 May	**1,879**	3,745

36 Financial instruments

Fair value

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

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

Trade and other receivables are all receivable in less than one year. Trade receivables are generally receivable within 90 days.

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

Interest bearing borrowings comprises a sales financing agreement with Barclays Bank that will be repaid within the first half of the next financial year. These borrowings are secured against certain trade receivables.

Liquidity risk

The group and company hold significant cash balances and also have access to a £4m sales invoicing facility with Barclays Bank. Presently there is $796k (£496k) owed to Barclays Bank within this facility. Cash is held on bank deposit for varying periods from overnight to six months to ensure all liabilities can be met as they fall due. The amount of the cash balances results in liquidity risk being very low.

Credit risk

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

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Cash and cash equivalents	**2,375**	3,745	**118**	1,193
Trade and other receivables	**17,237**	10,277	**10,792**	10,405
	19,612	14,022	**10,910**	11,598

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

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Barclays Bank	**1,789**	3,522	**118**	1,193
China Citic Bank	**336**	186	**–**	–
Bank of America	**208**	33	**–**	–
Bank of Delmarva	**37**	–	**–**	–
Industrial and Commercial Bank of China	**3**	4	**–**	–
ABC Bank China	**2**	–	**–**	–
	2,375	3,745	**118**	1,193

36 Financial instruments (continued)

The credit risk related to cash and cash equivalents is considered to be low due to the banks being large with high credit ratings.

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

The company has no trade receivables.

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

	Group	
	2013	2012
	£000	£000
Customer one	**9,245**	3,043
Customer two	**2,284**	1,414
Customer three	**938**	1,353
Other customers	**4,047**	3,747
	16,514	9,557

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

	Group	
	2013	2012
	£000	£000
Not past due	**14,849**	8,408
Past due less than three months	**973**	1,149
Past due more than three months	**692**	–
	16,514	9,557

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

	Group	
	2013	2012
	£000	£000
Past due more than three months	**16**	–

There is a provision of £16k for doubtful trade receivables as one of the group's smaller customers entered into administration during the year. A creditors agreement has been reached with the administrators where 8% of the outstanding invoices will be paid.

36 Financial instruments (continued)

Interest rate risk

Cash is held on short term bank deposits which earn interest at variable money market deposit rates. At 31 May 2013 £705,000 was held in Barclays on short term deposit with an interest rate of 0.3%. Sterling interest rates are very low and therefore interest rate risk is considered to be low.

The interest rate sensitivity of the expected annual interest income/(costs) assuming a balance on deposit or loan of £1,000,000 is as follows:

Interest rate	Expected annual interest income £000	Expected annual interest costs £000
1.5%	15	(15)
1.0%	10	(10)
0.5%	5	(5)

Foreign currency risk

The group's and company's reporting currency is sterling, which is also the company's functional currency.

The functional currencies of the subsidiaries are sterling, US dollar and Chinese Yuan.

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

The group has generated a surplus of sterling during the year as a major contract was awarded to Filtronic to supply a UK customer. The key suppliers to the group invoice in US dollars. Therefore, forward foreign exchange contracts have been used to reduce the currency risk on the shortfall in US dollars. The nature of the group's businesses means there is limited visibility of the currency required in US dollars. Therefore, when forward contracts are used to reduce currency risk, they are usually only for short periods of no more than six months. If the US dollar was to strengthen significantly this could materially reduce the group's revenue and operating result.

At 31 May 2013, there were three forward foreign exchange contracts in place each covering purchases to the value of $1,000,000. The fair value of this against the exchange rate is an adverse £7k impact.

Cash is mainly held in sterling and US dollars.

36 Financial instruments (continued)

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

	Group					
	2013			2012		
	EUR £000	**RMB £000**	**USD £000**	EUR £000	RMB £000	USD £000
Cash and cash equivalents	**10**	**341**	**925**	284	–	2,019
Interest bearing borrowings	**–**	**–**	**(496)**	–	–	–
Trade receivables	**236**	**1,311**	**5,594**	72	–	7,785
Trade payables	**(360)**	**(1,920)**	**(6,477)**	(856)	–	(3,592)
Net exposure	**(114)**	**(268)**	**(454)**	(500)	–	6,212

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

If the US dollar had been one per cent stronger/weaker against sterling throughout the year ended 31 May 2013 then the group operating profit from continuing operations would have been £196,000 higher/lower.

The company has no significant exposure to foreign currency risk.

Capital management

The group's and company's capital is the total equity which comprises ordinary share capital and retained earnings.

The group currently has a sales financing agreement in place for £4m and is currently utilising $796k. At 31 May 2013 the group had net funds of £1,869,000 and the company had a cash balance of £118,000. The group and company have sufficient cash to cover working capital requirements and capital expenditure plans.

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

37 Forward-looking statements

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

Annual General Meeting

The Annual General Meeting of Filtronic plc will be held at the Marriott Hollins Hall Hotel, Hollins Hill, Baildon, Shipley, BD17 7QW on Friday 27 September 2013 at 11am. The notice of meeting, together with details of business to be conducted at the meeting and a form of proxy, is being circulated to shareholders with this report.

Financial calendar

Provisional dates for the announcement of results:

Interim results to 30 November 2013	27 January 2014
Final results to 31 May 2014	28 July 2014

Website

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

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

Shareholder enquiries and change of address

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

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
Tel: 0870 162 3100

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

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