



Meeting the growing demand for mobile telecoms infrastructure



**Filtronic plc**

Annual report and accounts  
for the year ended 31 May 2015  
Stock code: FTC

[www.filtronic.com](http://www.filtronic.com)



# Welcome to Filtronic plc



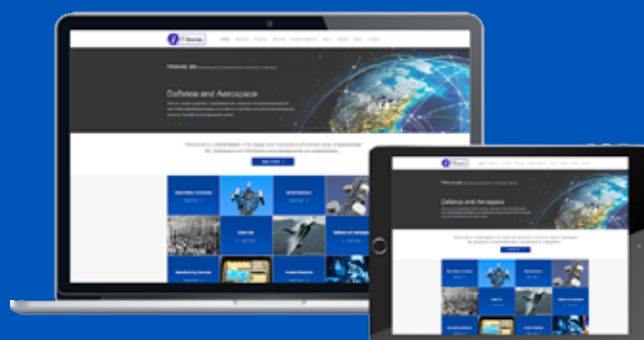
Filtronic plc is a world leader in the design and manufacture of a broad range of customised RF, microwave and millimetre-wave components and subsystems.

The company's products are used in mobile wireless communication equipment, point-to-point communication systems and adjacent defence sectors.

Filtronic's customers include leading international original equipment manufacturers (OEMs) as well as a wide range of mobile phone network operators.

Filtronic's strategic objective is to become one of the world's leading RF electronics subsystems companies in the wireless infrastructure sector by utilising its proprietary technologies and engineering expertise and applying them to markets that offer opportunities for significant, sustainable rates of growth and shareholder return. Filtronic addresses these opportunities by designing and supplying sophisticated and customised RF filter and microwave subsystems, antennas and millimetric transceiver products to customers' requirements and by continuing to develop and support its global relationships with these customers.

The group's operations include two separately reported trading business segments: Broadband (which has been transitioned from the traditional point to point (PTP) backhaul business) and Wireless.



Filtronic Broadband is an established leading designer and manufacturer to the OEM mobile telecommunications industry for millimetre-wave products as well as providing build to print manufacturing and testing services for microwave and millimetre-wave products at its state of the art highly automated UK facility. The product range includes transceiver modules and multi-chip, surface mountable transceiver packages at microwave, E-band and V-band frequencies.

Filtronic Wireless is a world leader in the design and manufacture of RF filters, combiners, tower mounted amplifiers (TMAs), microwave subsystems, and Ultra Wide Band (UWB) antennas for the mobile telecommunications industry focusing on equipment for OEMs and network operators.

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### Chairman's letter

The general market outlook remains positive with demand for infrastructure products being driven by increasing consumption of data-heavy apps on mobile devices.



## 06

### Chief executive's statement

The mobile telecommunications infrastructure market continues to show strong growth and our E-band transceivers and ultra wide band integrated antennas will be our leading products in these markets in the next few years.



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### Objective and strategy

Our objective is to be a major supplier of RF and microwave products to the global telecommunications equipment infrastructure market.



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### Our business model

Our business model has been developed around close working relationships with both our customers and suppliers to maintain a dialogue at multiple levels to cover all aspects of the business.



# Glossary

<b>3G:</b>	3rd generation mobile networks
<b>4G:</b>	4th generation mobile networks
<b>5G:</b>	5th generation mobile networks
<b>CDMA:</b>	Code Division Multiple Access
<b>Cloud RAN:</b>	Cloud RAN: Cloud radio access network, a new cellular network architecture
<b>dBm:</b>	An abbreviation for the power ratio in decibels (dB) of the measured power referenced to one milliwatt (mW)
<b>Diplexer:</b>	A diplexer is a passive device that implements frequency domain multiplexing.
<b>E-band:</b>	71 GHz to 86 GHz
<b>EDGE:</b>	Enhanced Data Rates for Global Evolution
<b>Gbit/s:</b>	Gigabit per second
<b>GHz:</b>	Gigahertz $10^9$ Hertz
<b>Gigabit:</b>	Gigabit: $10^9$ bits
<b>GSM:</b>	Global System for Mobile Communications
<b>HSPA:</b>	High Speed Packet Access
<b>Hz:</b>	the international standard symbol for Hertz, the unit of frequency
<b>LTE:</b>	Long Term Evolution
<b>MHz:</b>	$10^6$ Hertz
<b>MMIC:</b>	Monolithic Microwave Integrated Circuit
<b>Mobile PC:</b>	Defined as laptop or desktop PC devices with built-in cellular modem or external USB dongle
<b>Mobile router:</b>	A device with a cellular network connection to the internet and Wi-Fi or ethernet connection to one or several clients (such as PCs or tablets)
<b>Multiplexing:</b>	A method by which multiple analogue message signals or digital data streams are combined into one signal over a shared medium.
<b>OEM:</b>	Original Equipment Manufacturer
<b>OFCOM:</b>	The Office of Communications; the government approved regulatory and competition authority for the broadcasting, telecommunications and postal industries of the United Kingdom.
<b>PetaByte:</b>	$10^{15}$ bytes
<b>QAM:</b>	Quadratic Amplitude Modulation
<b>RAN:</b>	Remote Access Radio
<b>RF:</b>	Radio Frequency, a rate of oscillation in the range of around 3 kHz to 300 GHz
<b>Smartphone:</b>	Smartphone: Mobile phones with data processing capabilities, e.g. iPhones, Android OS phones, Windows phones but also Symbian and Blackberry OS
<b>TMA:</b>	Tower Mounted Amplifier
<b>UWB:</b>	Ultra Wide Band
<b>V-band:</b>	57 GHz to 66 GHz
<b>WCDMA:</b>	Wideband Code Division Multiple Access





# Strategic report



Pictured: Filtronic antenna test range, Täby, Sweden

# Strategic report

## Financial highlights

	2015	2014
Sales revenue	<b>£17.5m</b>	£32.9m
Operating loss before amortisation and exceptional items	<b>(£8.1m)</b>	(£0.4m)
Loss before taxation	<b>(£11.0m)</b>	(£3.7m)
Basic and diluted loss per share	<b>(10.68p)</b>	(2.90p)
Net cash balance as at 31 May	<b>£0.8m</b>	£2.5m
Cash (out)/in flow from operating activities	<b>(£3.7m)</b>	£1.6m

## Operational highlights

- Successfully completed prototype development of Ultra Wideband Integrated Antenna for major OEM. Post year end received production tooling orders.
- Orpheus, our latest generation E-band transceiver launched has and achieved class leading performance of >4Gbps at 256 QAM. Production orders received for FY16.
- Broadband has been selected by a new customer to supply SiGe E-band modules for delivery in Q4 2015.
- Business structure simplified to give clearer responsibilities and accountability. Annualised overhead cost savings of £2 Million achieved.



Pictured: Cross Polarised panel ultra wide band antenna

# Chairman's letter

The year ended 31 May 2015 was a challenging and difficult year for Filtronic. We continued to work hard to bring a number of new and exciting product developments to completion, but demand from our original equipment manufacturer ("OEM") customers fell short of our expectations. We also encountered delays in product developments, due to some significant technical challenges associated with the complex nature of a number of the programmes undertaken and this exacerbated the shortfall in revenue.

In early March 2015 we fully recognised the scale of these issues and implemented management changes and appropriate cost reductions. Clear accountability was reinforced throughout the organisation and we have now overcome the technical issues related to key development programmes.

Sales revenue reduced to £17.5m in the year (2014: £32.9m) and an operating loss before exceptional items and amortisation of goodwill of £8.1m (2014: loss of £0.4m) was incurred.

Net cash and bank balances as at 31 May 2015 were £0.8m (2014: £2.5m) reflecting the proceeds from the share placing made in December 2014 of £2.0m net of expenses, greater efficiency in managing our working capital and the benefits achieved in reducing costs from March 2015 onwards.

## Wireless business

Sales in the year from our Wireless business were £10.3m (2014: £23.2m). In part the reduction reflected the conclusion of the large contract for TV interference mitigation filters in 2014 but also reflected delays in sales from new product introductions. Wireless made an operating loss before exceptional items and amortisation of £5.7m (2014: £2.6m profit).

A simplification of the Wireless business was implemented in March and costs were cut by reducing headcount in the UK and closing our offices in California. In our Leeds facility we reduced research and development activity that was not customer-funded and consolidated our new product introduction activities. The costs of these changes were mitigated by selling excess assets in the U.S.

## Broadband business

Sales in our Broadband business fell to £7.2m (2014: £9.7m) but due to tighter cost control, improved product mix and better production yields a reduced operating loss before amortisation and exceptional items was incurred of £1.6m (2014: £2.3m loss).

## Placing and transfer to the AIM Market

On 27 August we announced our intention to move to the AIM market and announced the placing of 90,000,000 new shares in the Company, contingent on shareholder approval. This will provide an additional £4.5 million of funding (before expenses) that will enable the business to execute on its commercialisation plans.

## Changes to the board

Alan Needle resigned as CEO on 3 March 2015. Rob Smith, who was appointed as CFO on 16 June 2014, assumed the role of CEO on Alan's departure. Both Graham Meek and I have indicated our intention not to stand for re-election at this year's AGM.

## Outlook

The general market outlook remains positive with demand for infrastructure products being driven by increasing consumption of data-heavy apps on mobile devices.

The key product development for Wireless has been a range of Integrated Ultra Wide Band Antennas which have been developed in association with a major OEM and are being trialled by a number of operators. Production tooling has been committed for these products and we expect production orders to commence when the tooling has been completed.

Broadband's latest generation E-band transceiver, Orpheus, has been well received and the production ramp will commence in the final quarter of calendar year 2015. We have also won orders for adjacent market applications and our opportunity pipeline has been growing steadily.

Whilst the underlying market growth potential is substantial, it remains a very competitive market and we have made significant adjustments to our business model to ensure we meet these competitive challenges

I would like to thank the board of directors, employees, shareholders, advisors and our bankers who have given their support to the Company and worked tirelessly to put the business on the road to recovery and I look forward to the management team delivering the success that we have all worked for.

## Howard Ford

Chairman

28 September 2015



# Chief executive's statement

## Summary of year performance

As outlined in the Chairman's letter, FY2015 was a disappointing and unsatisfactory year for Filtronic with a number of commercial and technical setbacks combining to result in a significant consolidated operating loss before amortisation and exceptional items of £8.3 million (FY2014: £0.4 million).

Once the scale of the issues became apparent it was imperative that actions be taken to turn around the Group's performance and stem both the operating losses and the consumption of cash. A number of initiatives commenced in early March and have continued since. These have included:

- reducing our overhead cost base,
- simplifying our organisational structure,
- improving our sales and marketing activities,
- resolving key technical issues and
- strengthening our balance sheet.

A good start has been made on all the turnaround actions. The proposed placing and move to AIM announced on 27 August 2015 and new U.S. sales invoice financing facility announced on 14 September 2015 mean that we can concentrate on taking the actions that are required to improve our operational performance. As we move forward we will continue to refine our strategy, look for further efficiency in how we develop and deliver products as well as being more effective in our customer engagement. Filtronic has a tremendous legacy of engineering excellence and has superb manufacturing knowhow and resources. Whilst retaining our technical leadership we are taking actions to invest in our selling and marketing capabilities and channels to market to ensure that we achieve better results.

## Mobile telecommunications infrastructure market

The mobile telecommunications infrastructure market continues to evolve. The take up and deployment of 4G / LTE has spurred dramatic increases in data traffic with video apps such as YouTube, NetFlix and Periscope setting the pace and requiring operators to ensure sufficient, contiguous capacity is available to users. Operator pricing plans have evolved so that call and text traffic is typically unmetered and data consumption is increasingly becoming the priced element of operators' offering to consumers.

The increased data traffic and the need for seamless 4G / LTE coverage is requiring operators to make sustained investments into infrastructure capacity. This investment presents opportunities to Filtronic for both our Wireless and Broadband Businesses and we continue to develop our capabilities and offerings for this market.

## Filtronic Wireless

Filtronic Wireless has followed a strategy of gaining design wins from major mobile telecommunications infrastructure industry OEMs and engaged in a number of customer specific development programmes during the year. These have required a significant investment in engineering during the period. Due to longer than anticipated development lead times and lower customer demand associated with these projects, the business achieved reduced revenue of £10.3 million (FY2014: £23.2 million). A number of these programmes are now due to enter production during FY2016.

One notable trend in the wireless infrastructure has been the increasing integration of the various sub-systems in the RF to save weight, reduce signal losses, lower overall capital cost and decrease operating expenditure. In order to address this market trend, in 2013 Filtronic acquired an antenna capability in Sweden. This has enabled us to develop a range of ultra wide band antennas that integrate our existing filter, combiner, software and electronics technologies with our newly developed radiating elements and phase shifters. Key elements of these developments are subject to patent applications. These advanced and novel antennas enable our OEM customers to offer operators integrated radios and RF management in a single solution. This development has been a major focus for the Wireless business and we are currently moving this product range into a production ready status.

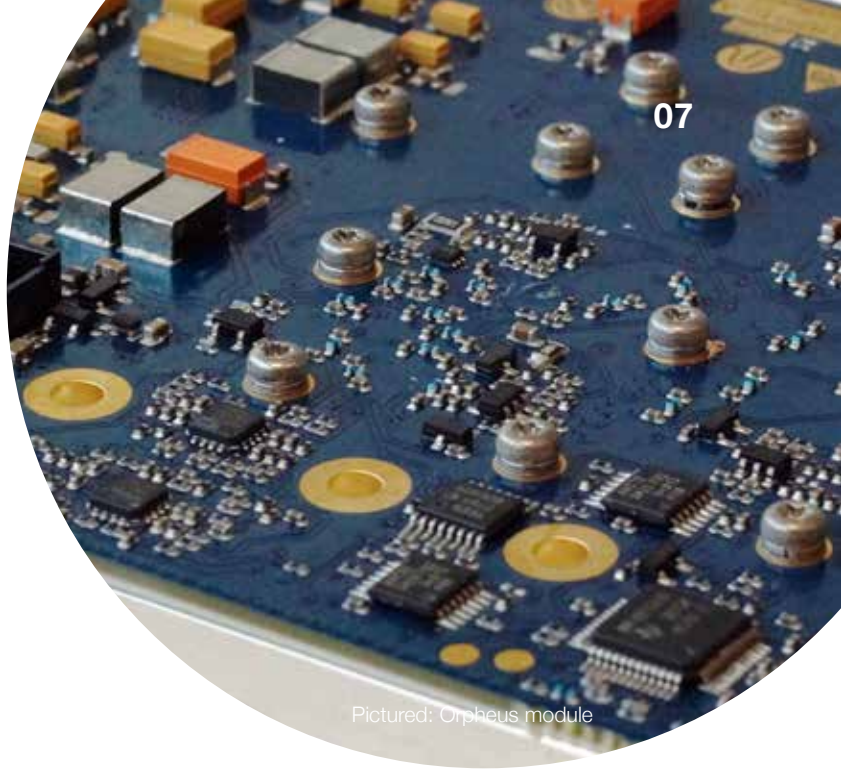
It is our firm belief that the industry will adopt integrated antennas over the coming years as the compelling operational benefits become increasingly apparent to operators.

## Filtronic Broadband

Filtronic Broadband has concentrated on developing and supplying carrier grade, E-band transceiver modules, for the mobile telecommunications backhaul market. The E-band spectrum offers the market increased capacity and is being licenced for use in a number of important markets. The take up of E-band has been slower than industry analysts had originally predicted and together with commercial challenges affecting our customers who have been supplying the Russian market, we saw a reduction in sales in FY2015 to £7.2 million (FY2014: £9.7 million). However, due to improved margins, better production yields and cost controls we were able to reduce the operating loss before intangibles and exceptional items to £1.6 million (FY2014: £2.3 million).

A concentrated effort has been made to improve the specification of our E-band modules and to reduce the cost of the product. In our latest generation offering, Orpheus, we have met these objectives. Orpheus has demonstrated class leading performance, delivering >4 Gbps at 256 QAM and giving our customers a measurable advantage over their





Pictured: Orpheus module

competition. Orpheus is now ramping to volume production and our lead customer is forecasting improved demand as E-band becomes more widely adopted throughout the industry. In addition to our own E-band product, we have won orders to supply E-band products based on an alternate technology and this allows us to bring our knowhow of high frequency module manufacture and test to a wider customer base.

During the year we have increased our engagement with the wider market for high frequency transceivers and along with Selex we have now won a contract to supply modules for a satellite communications project and have an exciting pipeline of opportunities that we are working hard to convert.

### Adjacent Market Opportunities

Whilst Filtronic has concentrated on the mobile telecommunications infrastructure market over the recent past it has become increasingly apparent that we need to develop complementary markets. Filtronic Broadband has successfully worked with Selex over a number of years and Filtronic has historically been a major player in providing filtering technology to the defence and aerospace markets.

As we move forward we will engage more actively with these markets that generally present better margins and higher added value, though not offering the same potential unit volumes as the telecommunications market.

### Moving forward

Filtronic is embarking on a programme of change to improve our commercial and financial performance. While it will be a tough few years of transition, this process is necessary to enable Filtronic to become the successful, profitable and growing company that it aspires to be.

We have invested heavily in product development over the recent past and our focus now is to ensure that we commercialise these developments. We are building sales channels and will invest in our sales and marketing assets to ensure that we capitalise on our technology leadership.

The mobile telecommunications infrastructure market continues to show strong growth and our E-band transceivers and ultra wide band integrated antennas will be our leading products in these markets in the next few years. We are starting to gain traction in adjacent markets and specifically see good opportunities in aerospace and defence markets where there is continuing strong demand for high specification filters and transceiver products.

Longer term, cloud RAN and 5G deployment will generate further requirements for increasingly complex and technically advanced infrastructure equipment and

further increases in data traffic. Filtronic's product road map envisages further development of antennas and E-band products so that we position ourselves to be an increasingly key supplier in our chosen market space.

**Rob Smith**

28 September 2015

# Market overview

## Market overview

The mobile telecommunications infrastructure equipment sector is a \$100 billion plus market experiencing significant growth due to the increasing demand for data.

## Network infrastructure

This demand for infrastructure is being driven by the growth in mobile broadband subscriptions and the increasing volume of data being consumed. End user expectations are for high quality services that allow them to consume data, and in particular streaming video, seamlessly whilst on the move. The network operators are competing to supply a comprehensive seamless network and are investing in infrastructure to meet this demand.

The original mobile networks were designed primarily for voice traffic. Today's networks are being designed to provide a seamless mobile broadband user experience for customers. Operators will be judged on whether the various applications available can be accessed and whether the application works as expected by the user.

Mobile data traffic is projected to increase at a compound annual growth rate of approximately 45 per cent between 2014 and 2020. This growth level will result in a 9-fold increase by the end of 2020. As smartphone subscriptions increase data traffic will accelerate and data per subscription, especially driven by streaming video, will add to this rise in data volume.

Smartphones are already generating more data traffic than mobile PCs, tablets and mobile routers. It is projected that smartphone subscriptions will more than double by 2020, resulting in rapid traffic growth.

**“ Total mobile data traffic is expected to rise at a compound annual growth rate (CAGR) of around 45 percent**

(Ericsson, June 2015)

**“ Smartphone subscriptions are set to more than double by 2020. By this time, 70 percent of the world's population will have a smartphone.**

(Ericsson, June 2015)

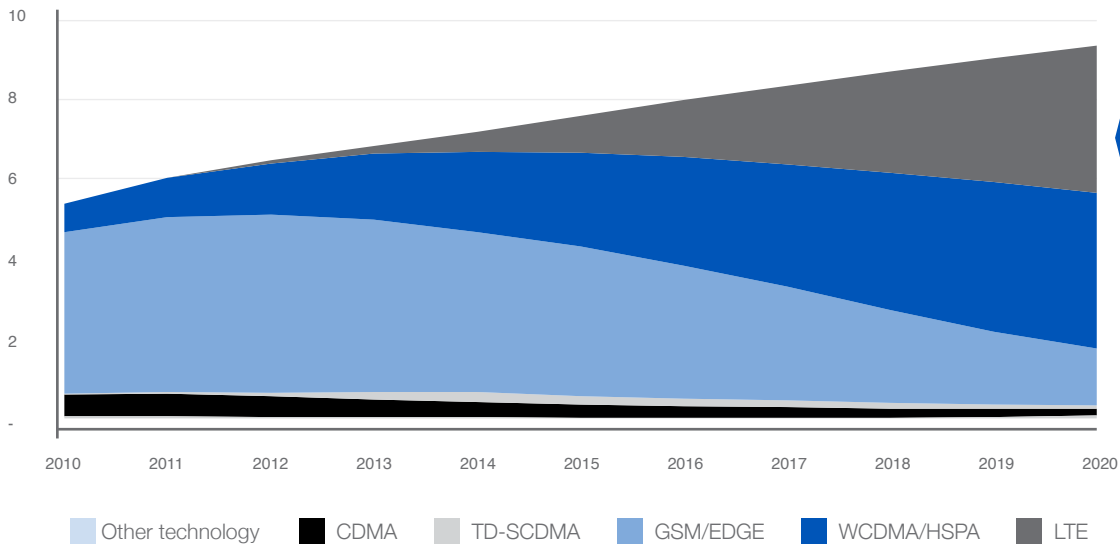
Ericsson report that for many mobile networks currently 40–60 percent of video traffic is from YouTube. Mobile video is forecast to grow overall by around 55 percent annually through to 2020, when it will account for around 60 percent of all mobile data traffic. Other apps such as BBC iPlayer, Netflix, Amazon Prime and disruptive technologies such as Periscope will further fuel demand.

Music streaming apps such as Spotify and Apple Music are also gaining popularity, but functions such as content caching and offline playlists limit the impact on traffic growth. However, audio traffic is still projected to increase in line with total mobile traffic growth.

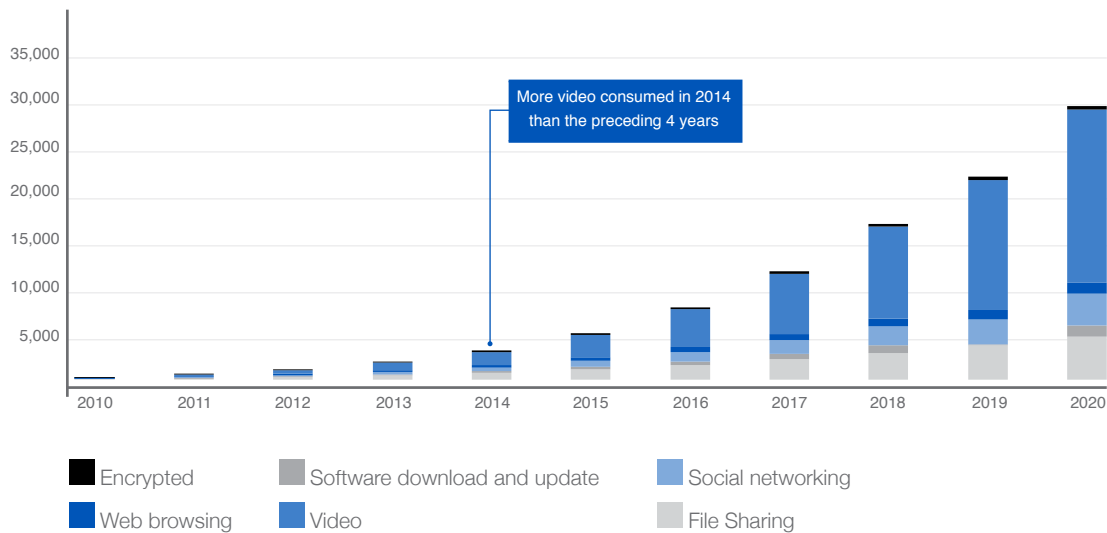
Web browsing is expected to show relative decline from 10 percent in 2014 to 5 percent of all data traffic by 2020 mainly as a result of stronger growth in the video category. Consumer preferences are shifting towards more video and app-based mobile use relative to web browsing.

The emergence of new applications can shift the relative volumes of different types of traffic, but the proliferation of specific devices will also affect the traffic mix.

### Mobile subscriptions by technology (Billions)



### Data traffic by application





## Market overview continued

There is a wide disparity in the data usage between different networks, markets and user types. A minority of users are generating a significant proportion of the traffic. The factors influencing user data traffic include operator volume caps, tariff plans, and the screen size and resolution of the user's device.

There are significant regional variations in the rate of adoption of 4G / LTE. European markets were among the first to adopt wireless technology. In the early 1990s GSM was deployed and WCDMA was rolled out 10 years later. The early introduction of infrastructure has resulted in high population coverage estimated currently at 90 per cent for GSM/EDGE and 75 per cent for WCDMA/HSPA. Ericsson predict that by 2019 coverage will increase to 95 per cent and 90 per cent respectively.

The early introduction of mobile networks in Europe has meant that there is a legacy of older base stations compared to regions where infrastructure was rolled out subsequently. This has resulted in the need to modernise base stations in recent years as more efficient infrastructure is required to handle multi-standard technologies such as GSM/EDGE and WCDMA/HSPA. Other regions have seen modernisation programmes driven by the introduction of LTE. Generally adoption of 4G / LTE has been faster in North America, where 3G was generally not adopted and Asia led by infrastructure investment in China.

“ Today's subscribers expect a high quality user experience and continual service improvement. Evolving mobile network capabilities is the key enabler to ensuring such a user experience.

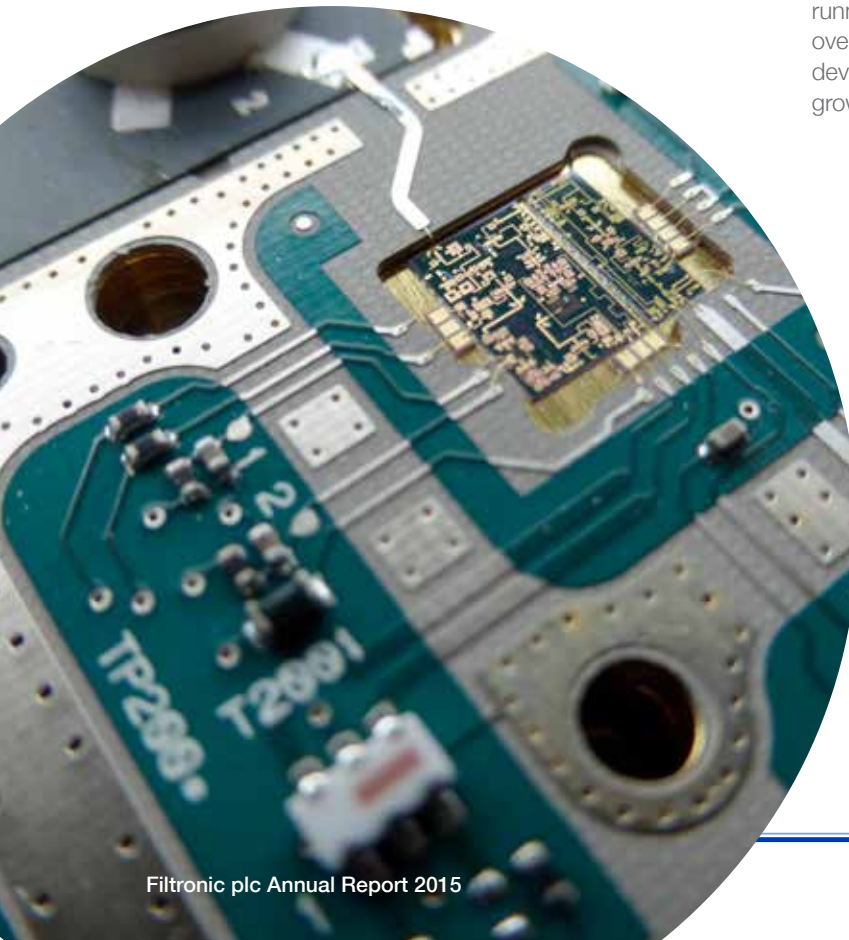
(Ericsson, June 2015)

### Network backhaul

Mobile broadband backhaul capacity is predicted to see further expansion as demand continues to grow. Capacity per base station will vary by site depending on population density and target data rates. By 2019, high capacity base stations are predicted to require backhaul in the 1 Gbit/s range.

Microwave currently accounts for 60 per cent of base station connections and Ericsson predict that wireless technology will continue to connect approximately 50 per cent of such connections in 2019 and a growing number of connections will be at E-band.

Smart mobile devices such as smartphones and tablets running various applications account for the majority of data over mobile broadband networks. Ericsson predict that of devices and applications with more complexity will fuel further growth in traffic.



Pictured: MMIC

## Future developments

Early mobile networks pre-date the development of smart mobile devices and were designed primarily to service voice traffic. Mobile network operators have been forced to invest in modernisation of their infrastructure and to adopt new technologies such as HSPA and LTE. The modernisation process has resulted in the development of seamless heterogeneous networks capable of handling multiple technologies.

The development of heterogeneous networks is resulting in the requirement for complex hardware solutions combining multiple technologies. OEMs are developing integrated product solutions to address this requirement and these standardised products will address multiple operators in multiple territories.

## Conclusion

The wireless infrastructure market, including mobile backhaul, is set to grow over the coming years as network operators upgrade their networks to provide platforms capable of delivering the capacity and speed required to service the growing data traffic generated by users of smart mobile devices.

It is this growth that will drive demand for both the Wireless and Broadband business and Filtronic is positioned to be a key supplier to OEMs and operators as they develop and supply products required to upgrade networks to satisfy end user demand.

Data and information in the market overview has been sourced from the June 2015 Ericsson Mobility Report that is available at <http://www.ericsson.com/mobility-report>.



Pictured: Filtronic exhibiting at the Small Cells Backhaul World Summit, London 2015.



Pictured: Filtronic presenting at the IMS exhibition, Phoenix, USA - 2014

## Objective and strategy

Our objective is to be a major supplier of RF and microwave products to the global telecommunications equipment infrastructure market. There is a growing need for suppliers to provide solutions to satisfy technically difficult specifications to support the increasing complexity within the wireless telecommunications market. Filtronic is well positioned to capitalise on this need.

The group comprises two business units.

### Wireless

This business designs and manufactures RF products for mobile telecommunications and other communications markets.

The Wireless business will focus on developing advanced antennas integrating our core filters, supplying both the OEM market and network operators.

The business designs and supplies bespoke filters, combiners, tower mounted amplifiers, antennas and RF microwave subsystems to markets that value our advanced engineering and technical capabilities.

### Broadband

This business designs and manufactures E-band transmit and receive modules for the OEM mobile backhaul market. Additionally, Broadband supplies modules for phased array radars and offers a build to print, design and test manufacturing service for precision hybrid/surface mount technology at microwave, E-band and V-band.

“ **The Mobile Radio Access Network LTE equipment market for both macro and small cell radios will witness tremendous growth over the next five years, with LTE RAN revenue levels expected to outdo the RAN revenue peaks of GSM in 2007 and WCDMA in 2011.** ”

(Dell'Oro Group quarterly report, July 2014)

### Key group strategic drivers

The demand for infrastructure equipment is being driven by the growth in mobile broadband subscriptions and the increasing volume of data being consumed. Our customers include the network operators and more recently the large OEMs that supply these network operators. In Wireless we are focused on delivering ultra wide band integrated antennas. Increasingly, our revenues are generated by expanding market access for microwave filters, combiners and RF systems and the introduction of new products such as antennas. Importantly, we are now able to offer complete product portfolio and this maximises our opportunity per customer whether operator or OEM. In Broadband the focus is on introducing the next generation of E-band modules. By 2019, high capacity base stations are predicted to require mobile backhaul to achieve a traffic rate of 1 Gbit/s and then, with the adoption of C-RAN, a rate of up to 10 Gbit/s.





## Market strategy

### Wireless

Initially, the Wireless business predominantly focused on the mobile operators and in providing combiner solutions to enable new networks to be integrated into the existing networks and products to manage cell site interference and capacity improvements. Additionally, the time to market when supplying operators is significantly faster than the OEM market where the development of products for their mainstream platforms can take up to 18 months before volume manufacture commences. Due to the project nature of the business to operators, revenues can be extremely variable and subject to last minute change and it is therefore difficult to forecast and resource for this customer base.

To effectively address the Operator market we are developing a network of Channel Partners to enable us to have a more effective reach in this geographically diverse market place. We continue to serve the OEM business directly with good engineering contacts with the major western OEMs and account management in the US and Europe. We also engage with our OEMs at senior management level to ensure that we are well placed to understand their strategic direction.

Defence and Aerospace markets represent a major opportunity for growth. In the UK we have recently appointed a specialist sales representative to address this market and will look to appoint similar representatives in other markets as appropriate.



Pictured: Filtronic antenna test range, Täby, Sweden

### Broadband

The Broadband business supplies OEMs with E-band transmit and receive modules, for point to point backhaul solutions. Broadband's engineering team is experienced in the design of MMICs. This, coupled with our system design knowledge and capability, has enabled Broadband to design the RF transmit and receive modules that are required for 'carrier grade' mobile backhaul applications at E-band frequencies. Broadband also provides build to print and design services at V-band and E-band which take advantage of the in-house expertise that has been developed. The build to print product usually has some key component or design feature that creates intellectual property, protects our sourcing position and enables a higher yield manufacture.

Our new generation of E-band transceivers, Orpheus, have achieved market leading >4Gbps at 256 QAM. Our focus is now on increasing the OEM customer base and expanding the possible applications to other market sectors such as small cell and other enterprise opportunities to take advantage of this developing market.



Pictured: E-band transceiver with surface mount diplexer

## Our business model

### Filtronic Wireless



Filtronic Wireless is a designer and manufacturer of RF filters, combiners, TMAs, microwave subsystems and antennas for the mobile telecommunications industry, focusing on equipment for OEMs and network operators.

Filtronic Wireless provides a range of products to support global customers in the mobile telecommunications industry such as Ericsson AB, Alcatel Lucent, Nokia Siemens Networks, Motorola, O2, Sprint and Metro PCS as well as numerous smaller companies. Filtronic Wireless has its headquarters in Leeds, UK and has major design and engineering sites in the UK, Sweden and the US. With certified management systems and cost effective new product introduction and development processes, our experienced staff are able to support the needs of our customers for manufacturable high performance products.

Volume manufacturing is sourced from our manufacturing partner who is based in Suzhou, China where we have our own dedicated staff on site. We can provide the complete manufacturing process in house to minimise potential lead times, whilst maintaining the highest quality.

Filtronic Wireless has continued to develop new designs and products and now offers the following range of solutions for network operators and OEMs;

- Custom filtering for interference suppression and blocking protection
- Remote radio head products for the OEM base station market
- Innovative combining solutions which enable the rapid deployment of new systems maximising the use of available spectrum in the most compact and cost effective way
- TMAs to improve base station capacity
- UWB antennas to support the need to reduce the environmental impact of mobile phone telecommunication towers and support the introduction of new transmission frequencies

Solutions must also minimise the need for capital outlay, the need for extra antennas and avoid as far as possible planning permission for civil works.

### Filtronic Broadband



Filtronic Broadband is a designer and manufacturer of 60 to 90GHz millimetre-wave products for mobile broadband backhaul, defence applications as well as providing build to print manufacturing at its state of the art, highly automated UK facility.

Our key offerings are:

- Design and manufacture of E-band and V-band transceiver modules
- Design and manufacture of microwave and millimetric filters and diplexers
- Design and manufacture of customised MMICs for multi-chip module applications and advanced packaging
- Build to print and design for cost/manufacture services for precision hybrid/surface mount technology at 60 to 90GHz

Broadband products support global OEM customers for 'carrier grade' mobile backhaul and a number of smaller second tier OEM customers that supply the enterprise mobile backhaul market. In addition we produce modules for phased array radars and have build to print and test contracts for complex microwave modules at 4 to 90GHz.

Filtronic Broadband offers a vertically integrated design, manufacture and test capability for E-band and V-band transceivers for the mobile broadband backhaul market. The 'carrier grade' transceiver performance results from the use of proprietary MMICs. These MMICs have been designed in-house, for manufacture on the processes of leading foundries, and offer a differentiating capability in the market. The build to print projects involve some element of design for manufacture and rely on the vast experience that has been developed to achieve and support volume manufacture.

## Investing in research and development

Filtronic operates in a fast moving, technology driven market place where generating our own proprietary technology is key to maintain our competitive advantage. The group therefore invests in research and development and where appropriate obtains patents to protect our intellectual property.

As part of our research and development activities we are working to develop solutions which support the market trend towards smaller, more compact products encompassing the use of alternative materials including ceramic.



## Strategic relationships

Our business model has been developed around close working relationships with both our customers and suppliers to maintain a dialogue at multiple levels to cover all aspects of the business.

Wireless continues to develop its long-standing relationship with its manufacturing partner in Suzhou, China where Wireless has its own specialist staff on site to ensure close co-operation and good communication.

When there is a customer requirement to dual source production, for reasons of security of supply, Filtronic will, where economically viable, use more than one source of supply.





# Financial review

## Financial results

Sales revenue in the year ended 31 May 2015 was £17.5m (2014: £32.9m) and operating loss before interest, intangible amortisation and exceptional items was £8.1m (2014: £0.4m loss). The group net loss before taxation for the year was £11.0m (2014: £3.7m loss). Amortisation of intangible assets arising from the acquisition of Isotek (Holdings) Limited charged in the year was £2.4m (2014: £2.4m). Exceptional costs, primarily relating to the costs associated with reducing the overhead cost base, of £0.5m (2014: £0.8m) were recognised in the year.

## Key performance indicators (KPIs)

The directors set budgets for the year which are reviewed against the management accounts on a monthly basis. In addition to these results the directors review a number of KPIs to assess the performance of the group and assist in decision making. Historically, revenue and operating results by segment (note 3) have been the main KPIs used by the group.

In line with industry practice, a more comprehensive set of financial KPIs has been introduced to monitor business performance. These KPIs are set out on page 17.

## Taxation

A tax credit of £0.5m (2014: £0.9m) has been recognised for the year, see note 12, to the financial statements.

## Funding and cash flow

The group ended the year with net cash of £0.8m (2014: £2.5m), the decrease in net cash resulted from the operating losses offset by an unwinding of working capital and the raising of £2m through a share placing. Cash (out)/in flow from operating activities was (£3.7m) (2014: £1.6m).

On 3 December 2014 the company successfully completed a share placing of £2m net of issue costs.

Filtronic has an invoice discounting facility with Barclays Bank plc of £2.0m. As at 31 May 2015 £0.3m was drawn down against this facility (2014: £nil).

The company announced on 14 September 2015 that it had entered into an agreement in the US for a sales invoice finance facility with FGI Finance of \$3.5m.

At the end of August 2015, it was announced that the company is proposing to move to the AIM market where it will raise £4.5m through a share placing of 90,000,000 new shares, subject to shareholder approval. The shares will be issued at a discounted price of 5.0p per share with funds used to strengthen the balance sheet and commercialise the suite of products it has invested

heavily in over the recent past. AIM is a more appropriate market for a company of Filtronic's size which should help attract new investors, providing a platform to promote the company and trading in its shares. It also offers greater flexibility with regard to potential future corporate transactions enabling the company to agree and execute certain transactions quicker and more cost effectively than on the Official List. There will also an opportunity for existing shareholders to participate in the fund raising at the discounted price of 5.0p per share with the company intending to launch an open offer of 20,000,000 new shares to raise up to a further £1m once it has completed its move to AIM.

In order to execute this, the company will need to complete a capital reorganisation by reducing the nominal value attached to existing shares in a way that does not affect their economic value and adopt new articles of association.

## Inventory provision

Inventory is valued at the lower of cost or net realisable value. It is the group's policy to regularly review the carrying value of its inventories and to make a provision for excess and obsolete inventory. As at 31 May 2015 the inventory provision was £1.6m (2014: £1.6m).

## Warranty provision

In line with industry practice the group provides warranties to customers over the quality and performance of products it sells. The group's policy is to make a provision, calculated as a percentage of sales revenue, after reviewing costs associated with faulty products returned.

## Capital expenditure

Capital expenditure of £0.2m (2014: £1.1m) included £0.2m for the Wireless business and £nil in Broadband.

## Research and development costs

Research and development costs in the year were £6.5m (2014: £6.4m). In line with the requirements of IFRS, the group's policy is to capitalise development expenditure as intangible assets when all the qualifying criteria set out in note 2 to the financial statements have been met. After considering the criteria no research and development costs were capitalised in the balance sheet in the year (2014: £nil).

## Working capital

At 31 May 2015 net working capital was £4.0m (2014: £8.0m). Net working capital comprised inventories of £1.6m (2014: £3.9m), receivables of £7.9m (2014: £9.9m) and payables of £6.6m (2014: £7.4m).

## Rob Smith

Chief Financial Officer  
28 September 2015

# Key performance indicators

	Group		Broadband		Wireless	
	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014
<b>Operating loss before amortisation and exceptional items per employee</b> Filtronic recognises that employees are a critical asset in our business and we monitor the profit per employee to measure productivity.	<b>(£47,837)</b>	(£2,376)	<b>(£19,566)</b>	(£24,837)	<b>(£66,115)</b>	£30,103
<b>Research and development to sales percent</b> The board recognises that the group needs to invest in new products, capabilities and technologies to participate in a technology driven market and monitors the investment made in research and development as a proportion of sales.	<b>36.9%</b>	19.3%	<b>13.2%</b>	13.2%	<b>53.6%</b>	23.0%
<b>Operating loss before amortisation and exceptional items to sales per cent</b> The board monitors profitability to ensure that an acceptable return is being made on operating activities in the year.	<b>(46.4)%</b>	(1.3)%	<b>(22.8)%</b>	(23.5)%	<b>(55.4)%</b>	11.3%
<b>Inventory turns</b> The group maintains inventory so that it can meet customer demand for scarce and long lead-time items and to fulfil customer orders where deliveries are scheduled over a number of months or years.	<b>19.3</b>	7.4	<b>12.2</b>	1.7	<b>30.0</b>	9.8
<b>Trade receivables days</b> In line with other companies in the sector the group extends credit facilities to customers that have an acceptable credit rating.	<b>86</b>	94	<b>61</b>	83	<b>97</b>	122
<b>Trade payables days</b> The group receives credit from a number of suppliers and recognises the importance of paying its suppliers on time.	<b>72</b>	62	<b>54</b>	55	<b>76</b>	79

# Risk management

Effective risk management is key to our success against the characteristics both of the industry that we operate in and within our chosen business model. Filtronic supplies microwave, base station filter products and antennas for the wireless telecommunications market. The group operates 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.

The directors recognise that risk is inherent in any business and seek to manage risk in a controlled manner. The key business risks are set out as follows: -

Risk	Nature	Mitigation	Change in year
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 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.	The group seeks to mitigate this risk by working closely with OEMs, on an engineer to engineer basis, to ensure that we are designed in to their products at an early stage. The group is actively seeking to increase the number of design wins across a range of OEM products. This strategy is designed to diversify market risk.  The relationship that the group maintains with OEMs is key to ensuring that we are involved in the early stages of product design.	↑
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 would result in a diminished market position.	The group's internal and outsourced manufacturing processes are certified to ISO9001.  Our Broadband division has relocated to a new facility. This move provided us with the opportunity to take greater control over our in house processes and where appropriate we have outsourced noncore processes to suppliers who can offer better quality and consistency of manufacturing.  All our products are provided to customers after detailed qualification testing. We work closely with our customers to ensure that the test process employed ensure that all the products are supplied compliant to the customer's specification.	↓
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 underpinned by retaining key staff.  We work closely with our customers and suppliers to gain a thorough knowledge of the technology being developed in the marketplace. By staying close to the market we position ourselves to react quickly to any technology changes that develop.	↓





Risk	Nature	Mitigation	Change in year
Financial management	The group has a specific exposure to credit risk, interest rate and exchange rate fluctuations.	The group has established a number of policies to mitigate these risks, further details of which are presented in note 36 to the financial statements.	↑

The board has established a continuous process for identifying, evaluating, and managing the significant risks the group faces which has operated throughout the year and up to the date of this report. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance with respect to the preparation of financial information and the safeguarding of assets and against material misstatement or loss.

In compliance with the UK Corporate Governance Code, the board regularly reviews (at least annually) the effectiveness of the group's system of internal control. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management systems. It is based principally on

reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The board has also performed a specific assessment for the purpose of this annual report. This assessment considers all significant aspects of internal control arising during the period covered by the report. The audit committee assists the board in discharging its review responsibilities.

During the course of its review of the risk management and internal control systems, the board has not identified or been advised of any failings or weaknesses which it has determined to be significant. Therefore, a confirmation in respect of necessary actions has not been considered appropriate.

# Corporate social responsibility report

Acting with integrity and behaving responsibly is central to the execution of our strategy and underpins our business model. This report covers how Filtronic interacts with a range of key groups, stakeholders and its approach to key issues and its aims for the future.

## Employees

The group's success depends on its employees and the board recognises that it is their commitment and contribution that is vital to the execution of the group's strategy.

With an international workforce, it is important that we provide an environment where we attract, motivate and reward high quality employees.

## Employee development

Employee development is an important element of employee retention and motivation. The group has an education and training policy in place to implement continuous improvement where beneficial to the group and employees, thus underlying the group's commitment to ongoing employee development and training.

## Employee communications

The group believes in keeping employees fully informed on matters which affect them through various communication forums. The group holds regular employee communications sessions at which employees can review group progress and raise, share and discuss specific issues and concerns that affect employees with senior management. The group publishes a monthly newsletter which outlines developments across the group.

## Equal opportunities

The group is committed to a policy of equal opportunities by which the group ensures that all employment related activities are based on merit and suitability for the job alone. Further information on our equal opportunities policy may be found on our website [www.filtronic.com](http://www.filtronic.com).

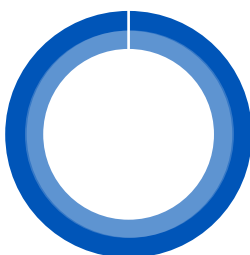
## Diversity and inclusion

Although Filtronic currently has no specific policy on diversity, including gender diversity, it is one of the group's core values (expected of employees, suppliers and other stakeholders) that all individuals are treated with dignity and respect.

Our policies and practices emphasise the importance of treating people in a non-discriminatory manner across the full employment life cycle, including hiring, reward, development, promotions, mobility and departure. In the event that an employee becomes disabled the group will make reasonable adjustments, and so far as is practicable; will continue to provide employment. Training is provided to those making decisions on these factors so that no individual is disadvantaged and to prevent discrimination on the grounds of gender, religion, belief, race, creed, age, disability, sexual orientation, ethnic origin, or marital status. The board recognises the importance and benefit of ensuring diversity throughout the business and is considering whether a specific policy on diversity, equality and inclusion is required. The diagrams below illustrate what the gender split is at various levels within the group.

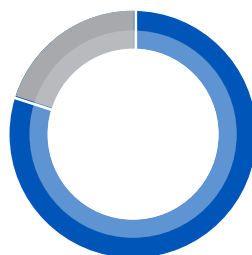
The chief executive officer is the board member responsible for human resources.

**Board of Directors' Diversity**



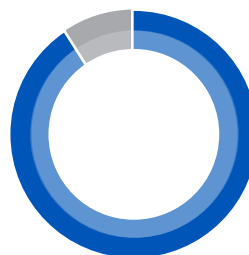
- Male 100%
- Female 0%

**Executive Level Diversity**



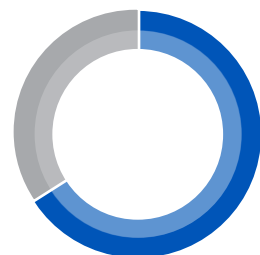
- Male 80%
- Female 20%

**Management Diversity**



- Male 91%
- Female 9%

**Total Workforce Diversity**



- Male 66%
- Female 34%

## Human rights

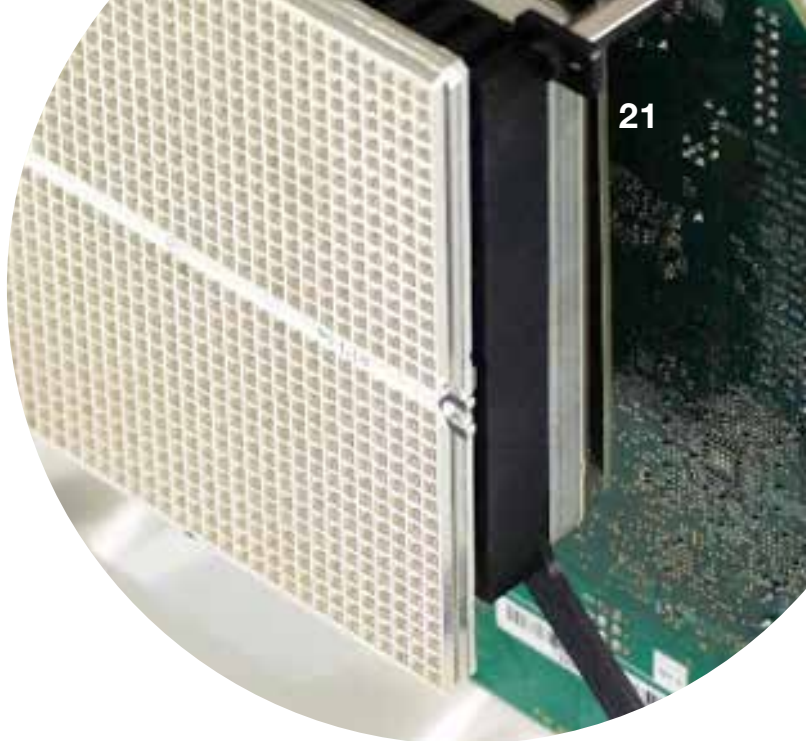
Filtronic applies human rights considerations to the way it does business, for example through our supplier and anti-bribery and anti-corruption policies, our code of ethics which is an integral part of our management policies, our practices in relation to health and safety, equal pay and employees' freedom to join trade unions. At present the group does not have a specific policy on human rights but will continue to review whether such a policy is needed in the future, and we will take into account development of the implementation of the Modern Slavery Act 2015.

## 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.



Pictured: Manual bonding at NET Park



Pictured: Orpheus ODU Reference design kit\*

We have three sites which are certified to ISO9001 standard – Salisbury, Maryland, USA, Leeds, West Yorkshire and Sedgefield, County Durham. The Leeds site is also certified to the ISO14001 standard.

## Emissions statement

Filtronic calculated its global greenhouse gas (GHG) emissions statement using an operational control consolidation approach as described in the Greenhouse Gas: Protocol: A Corporate Accounting and Reporting Standard (Revised Edition, 2004), which reflects the Defra Environmental Reporting Guidelines (Revised October 2013).

\* Antenna supplied by Huber and Suhner AG. Modem supplied by Escape Communications Inc



# Corporate social responsibility report continued

Scope 1 emissions occur from sources that are owned or where Filtronic has operational control. This includes direct emissions from gas combustion in our buildings and fuel used in leased company vehicles. Actual and estimated gas consumption data has been collected from each of the leased properties under the control of the Filtronic group, from data sources including direct meter readings, meter readings from suppliers included on invoices and estimations where required based on available information from property management suppliers and other sources. Actual mileage data has been collected from the company vehicle fleet.

Scope 2 refers to indirect emissions from the consumption of purchased electricity (also including any purchased heat, steam or cooling) from facilities owned or under the operational control of Filtronic. Actual and estimated data has been collected from each of the leased properties under the control of the Filtronic group, from data sources including direct meter readings, meter readings from suppliers included on invoices and estimations where required based on available information from property management suppliers and other sources.

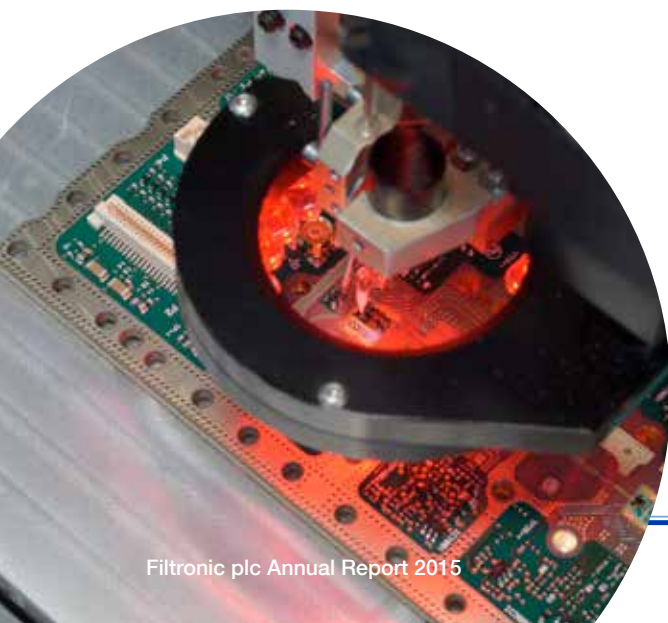
## Assessment Parameters

Baseline year	1 June 2014 to 31 May 2015
Consolidation approach	Operational control
Boundary summary	All entities and facilities under operational control included subject to the materiality threshold applied
Consistency with financial statements	The only variation is that leased properties deemed to be under the operational control have been included in scope 1 and 2 emissions
Materiality threshold	Materiality has been set at group level at 5 per cent*
Assessment methodology	Greenhouse Gas Protocol and ISO14064-1 (2006)
Intensity ratio	Intensity ratio Emissions per £m turnover excluding royalties

\* The total of any excluded emission sources are estimated to be less than 5 per cent of Filtronic plc's total reporting emissions.

GHG emission source	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e/£m)
Scope 1	42	2.40
Scope 2	675	38.52
<b>Statutory total (scope 1 and 2)</b>	<b>717</b>	<b>40.92</b>

The GHG emissions statement includes emissions data from leased assets that are not included in the rest of the consolidated financial statements, other than in note 32, operating lease arrangements.



Pictured: Automatic wire bonder



### Supply chain

The adoption of a new, advanced product life cycle management software system has allowed for group-wide management and control of our documentation to include product design, suppliers and change management as well as a module to address specific quality processes. Supply chain management is working to develop partnerships with our main suppliers to ensure they have systems in place that focus on quality, environment, corporate social responsibility and health and safety. This includes new initiatives from our customers on reporting of use of conflict minerals in our supply chain.

The implementation of these management systems, which are designed to monitor and control processes such as quality, environment and health and safety will provide Filtronic with the confidence that each and every product that is delivered to our customers is an appropriate level of quality, and has been designed and manufactured in a way that considers our impact on the environment and the ultimate health and safety of our employees who contribute to our success. To further complement this approach, the group will also be introducing a CRM (customer relationship module) this financial year.

### 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. We are currently in the process of arranging a full H & S audit across sites, to be conducted by an independent consultant to ensure best practice.

### Charitable and community support

The group has a history of supporting charities. In the majority of cases this involves matching employee sponsorship for their chosen charity events.

# Governance report

## Introductory letter from the chairman of the board on the governance report

### Dear Shareholder

At Filtronic, we believe that good governance is about helping to run the company well whilst promoting its success for the benefit of all of its shareholders. In practice, it is about setting clear goals and expectations not only for the company's strategy but for its conduct and business performance and being honest in our business dealings.

We are conscious that the board sets the tone for the company. The way in which it conducts itself, its attitude to ethical matters, its definition of success, the setting of goals and strategy and its assessment of risk, all define the environment in which the executive members implement the company's strategy.

It was a year of considerable change on the board (Alan Needle resigned as CEO in March 2015, with Rob Smith replacing him whilst continuing in his role as CFO). The group plans to recruit a Financial Director this financial year.

In the previous financial year, the remuneration committee completed an extensive review and benchmarking exercise on the short, medium and long term incentives for our UK-based executive directors and senior staff. It considered guidance from investor bodies and from the Department of Business, Innovations and Skills. No changes to this policy are being proposed this year. The audit committee considered a number of key risks within the business and the exposure to risk within the business.

In the pages that follow, we describe the corporate governance framework in more detail. We describe the board and its committees, their remit and operation, ending with the directors' corporate governance statement. Separate reports from each of the committees are included followed by the directors' report.

The detailed statement below sets out how the company applied the principles of good governance set out in the UK Corporate Governance Code issued in September 2012 by the Financial Reporting Council ("The Code") which is the applicable code for the relevant financial year. I hope you will find this report helpful in understanding our commitment to good governance.

Yours sincerely  
**Howard Ford**  
Chairman  
28 September 2015

## Governance framework: Board and committees, membership, remit and activities

### Board Membership

The board is currently comprised of five directors as follows: the chairman, three non-executives and one executive directors.

#### Executive director

**Robert (Rob) Smith** (aged 51) was appointed as Chief Executive Officer with effect from 3 March 2015. To this date he was chief financial officer and until the appointment of a new FD, he continues to act in a dual capacity. Prior to joining Filtronic, Rob was Finance Director at APC Technology Group PLC, a distributor of specialist electronic components and smart energy saving products and services provider. Rob has also served as finance director at Densitron Technologies plc, a manufacturer and distributor of electronic displays. Rob's earlier career was spent principally in the electronic components industry working for GEC, Centronic and International Rectifier. He is a Chartered Management Accountant and a Fellow of the Chartered Institute of Management Accountants.

#### Non-executive directors

**Howard Ford** (aged 65) 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 Light Blue Optics Limited, Pyreos Limited, Displaydata Limited and Cambridge Nanotherm Limited. He 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 68) has been a non-executive director since 1999. Since 2006 he has been designated the senior non-executive director and is chairman of the audit committee. He is non-executive chairman of Capital Gearing Trust plc and is vice-chairman of King's College Hospital NHS Foundation Trust.

**Reginald (Reg) Gott** (aged 58) 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 50) was appointed as a non-executive director on 1 June 2013. In March 2014 he joined the board of Bioquell plc as group finance director. He has previously been finance director of a number of quoted companies, most recently Corin Group plc. He has also held a number of other senior finance roles in a broad range of listed and private companies. He qualified as an accountant with KPMG.

## Framework of governance: corporate duties, operation of the board and its committees

### Leadership

The board is accountable to the company's shareholders for good corporate governance. It is also responsible for providing leadership to the group within an effective framework of authority and accountability. It sets the strategy and oversees its implementation. It ensures that the right people and resources are in place in order to deliver long term value to shareholders through the proper management of risk in parallel with the promotion of innovation and entrepreneurship. In June 2013, Michael Roller joined the board as a non-executive director and in June 2014, Rob Smith joined as chief financial officer of the group, and in March 2015 he replaced Alan Needle as Chief Executive Officer. Howard Ford, the chairman is responsible for the running of the board ensuring, together with the company secretary, that it receives timely and clear information to enable it to discharge its duties.

### Effectiveness

Late in the previous financial year the board carried out a rigorous evaluation exercise involving an internal review process. The board did consider undertaking a further rigorous review in this financial year but has agreed to defer this process until after Graham Meek and I have retired at the AGM 2015. The newly constituted Board can then evaluate the balance of its skills and experience and identify any deficits or weaknesses that need to be addressed.



## Governance report continued

The board considers all of its non-executive directors to be independent. Although Graham Meek does not meet the criteria for independence as set out in the Code, the board considers him in character and judgement to have been independent during the relevant period. Neither Mr Meek nor I will be seeking reelection at this year's AGM which will be held on 27th November 2015.

All members of the board have access to the advice and services of the general counsel and company secretary and are able to take independent professional advice at the company's expense in the discharge of their duties. The company has procedures to deal with directors' conflicts of interest and the board is satisfied that these procedures operate effectively.

### Accountability

The UK Corporate Governance Code states that the board should present a balanced assessment of the company's position and prospects including the significant risks facing the company. The strategic report and the audit committee report set out these assessments in detail.

### Remuneration

The remuneration committee report (which follows) complies with the new regulations governing the reporting of directors' remuneration by UK public companies. The directors' remuneration policy was approved by shareholders at last year's AGM and no changes to that policy are proposed this year. The annual remuneration report will similarly be proposed as a shareholder resolution at this year's AGM but will be subject to an advisory (i.e. non-binding) vote.

### Relations with shareholders

The chairman is chiefly responsible for ensuring that there is a satisfactory dialogue with shareholders. All of the directors recognise the importance of having clear communication with shareholders and the role of clear narrative reporting in particular to aid this communication. Meetings with shareholders are usually scheduled after the announcements of the preliminary results and the interim results each year. Shareholders are encouraged to attend the company's AGM. The chairman aims to ensure that the chairmen of the audit and remuneration committees are available at the annual general meeting to answer questions. Information is also available to all investors by way of the company's website at [www.filtronic.com](http://www.filtronic.com).

### Remit of the board

Whilst day to day operational matters are managed by the chief executive officer, other matters, including those listed below, are reserved for the board:

- Strategy and oversight of the management of the company;
- Approval of company and consolidated financial statements;
- Approval of major corporate transactions and commitments;
- Succession planning (appointment/removal of directors and the company secretary);
- Approval of all terms of reference for the committees of the board and delegation of authority to the chief executive officer;
- Review of the group's overall corporate governance arrangements including systems of internal controls and risk management;
- Approval of the delegation of authority to the chief executive officer or where appropriate to the relevant board committee;
- Approval of the terms of reference of all committees of the board.

The board has established the following committees, each of which has written terms of reference specifying its authority:

### Audit committee

The primary function of the audit committee is to assist the board in fulfilling its financial and risk oversight responsibilities. During the year, it met four times. The committee reviews items such as the half and full year results and then makes a recommendation to the board. The audit committee is chaired by Graham Meek and is comprised of all of the non-executive directors. Further details of the role and responsibility of the committee can be found later in this section in the audit committee report. It is expected that Michael Roller will take over as Chairman of the Audit Committee when Mr Meek retires at the 2015 AGM.

### Nominations committee

The nominations committee is chaired by Howard Ford, and the other members are the independent non-executive directors: Graham Meek, Reg Gott and Michael Roller. The nominations committee's duties are confined to the nomination of appointments, reappointments and termination of employment or engagement of directors and the company secretary. Further details of the role and activities of the committee can be found later in this section in the nominations committee report. It is expected that Reg Gott, subject to his re-election at this year's AGM, will take over as

Chairman of the Nominations Committee after the AGM.

#### Remuneration committee

The remuneration committee is chaired by Reg Gott and the other independent non-executive directors, Graham Meek and Michael Roller together with Howard Ford, the chairman of the board, are members. The members of the committee have no personal interest in the matters considered other than as shareholders. No potential conflicts of interest exist in relation to any of the member of the committee and their duties. The remuneration committee's responsibilities include ensuring that the remuneration policy of the company and its implementation are appropriate. It ensures that levels of remuneration are sufficient to attract, retain and motivate directors of the quality required to run the company successfully whilst avoiding paying more than is necessary for this purpose. Further details of the role and responsibility of the committee can be found later in this section in the remuneration report. The remuneration committee met four times during the year.

#### Executive committee

The chief executive has established an executive committee.

The committee aims to meet monthly either by teleconference or face to face. The routine matters on the agenda include, operational matters (trading, customers, suppliers), site specific issues in the UK, Sweden, China and the USA, risk management, health and safety, human resources and environmental matters.

#### Directors' attendance table FY2015

The board normally schedules at least 10 meetings during the year. Last year the board met 13 times. Attendance at board meetings and committee meetings during the year ended 31 May 2015 was as follows:

	Board	Audit	Remuneration	Nominations
Total meetings in year	13	4	4	4
<b>Director attendance</b>				
Howard Ford (Chairman)	13	4	4	4
Reg Gott	12	4	4	4
Graham Meek	12	4	4	4
Michael Roller	12	4	4	4
Rob Smith	13	n/a	n/a	n/a
Alan Needle	11/11	n/a	n/a	n/a

Table Governance Report: Attendance at board (and committee) meetings held in FY2015

In addition to these 13 board meetings, there were 9 further board update calls held during the year which were focused on trading and finance. These calls continued after the year end in addition to scheduled board meetings

#### Statement of compliance with the 2012 UK Corporate Governance Code (the Code)

The company is committed to the principles of corporate governance contained in the Code.

Notwithstanding the circumstances set out in provision B.1.1 of the Code, the board believes that both Reg Gott and Graham Meek continue to be independent in character and judgement despite the fact that they have served on the board for more than three terms of three years. They both continue to demonstrate their independence at each board meeting drawing on their considerable and diverse experiences in business. Graham Meek will be stepping down at the 2015 AGM and Reg Gott will be seeking re-election as director.

In respect of code provision C.3.3 (relating to the audit committee's role in monitoring the company's internal audit function) as explained in the company's audit committee report, the company outsources its internal audit activity to third parties as it is not deemed appropriate given, the company's size, to have its own internal audit function. The audit committee considers annually whether there is a need for an in house internal audit function to be established and were it to conclude that this would be more appropriate than the current arrangements, would recommend this to the board. The Board has not complied with Code Provision B. 6.1 – B. 6.3 for the reasons set out earlier in this Governance Report (see Effectiveness section). Except for the foregoing, the directors consider that throughout the year ended 31 May 2015 the company has been in compliance with the other provisions of the Code.

# Audit committee report

During the year the audit committee comprised four independent Non-Executive Directors:

Graham Meek (Chairman), Howard Ford, Reg Gott and Michael Roller.

The audit committee's terms of reference include the following roles and responsibilities:

- monitoring and making recommendations to the board in relation to the company's published financial statements and other formal announcements relating to the company's financial performance;
- advising the Board on whether the committee believes the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy;
- monitoring and making recommendations to the board in relation to the company's internal financial controls and financial risk management systems;
- annually considering the need for an internal audit function;
- making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- monitoring the extent to which the external auditor is engaged to supply non-audit services; and
- ensuring that the Company has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

The committee reviews its terms of reference and its effectiveness annually and recommends to the board any changes required as a result of the review. The terms of reference are available on request from the company secretary and on the Company website, [www.filtronic.com](http://www.filtronic.com). The audit committee meets at least three times a year and has direct access to KPMG LLP ("KPMG"), the company's external auditor. The board considers that the members of the committee are independent and have collectively the skills and experience required to discharge their duties effectively, and that the chairman of the committee meets the requirements of the UK Corporate Governance Code as to recent and relevant financial experience.

The company outsources its internal audit activity to third parties as it is not deemed appropriate given the size of the company to have its own internal audit function. However, the committee considers annually whether there is a need for an in-house internal audit function to be established and, were it to conclude that this would be more appropriate than the current arrangements, would recommend this to the board.

During the year ended 31 May 2015 the audit committee met four times and discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement, remuneration and independence;
- reviewing the external auditor's plan for the audit of the company's financial statements, including identification of key risks;
- reviewing the Company's internal financial controls operated in relation to the business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing the appropriateness of the company's accounting policies;
- reviewing the company's draft annual report and accounts, interim report and interim management statements prior to board approval;
- reviewing the external auditor's detailed report to the committee on the annual financial statements;
- reviewing the need for an internal audit function, and determining what aspects of the company's operations should be subject to outsourced internal audit scrutiny.

The following key areas of risk and judgement have been identified and considered by the audit committee in relation to the business activities and financial statements of the company.

- Inventory valuation
- Warranty provisions
- Valuation of goodwill and intangible assets
- Going concern

These issues were discussed with management and the auditor, in particular at the pre-year end audit planning meeting and at the conclusion of the audit of the financial statements.

**Inventory valuation:** Filtronic operates in an industry where developments in product technology and the highly customer-specific nature of some inventory may result in inventory becoming slow-moving or obsolete. This in turn may mean that inventory cannot be sold or sales prices for such inventory are discounted to less than the relevant inventory's book value.

The majority of Filtronic's inventory relates to the Broadband division. The Committee considered a paper from senior management analysing this inventory by customer and looking at projected future usage relative to current inventory on hand. It reviewed the provision for excess and obsolete inventory and noted that the level of provision and the methodology applied were appropriate and consistent.

**Warranty provisions:** Filtronic maintains a provision to recognise the risk of warranty claims being made against it by its customers. The level of warranty provision varies and is dependent on the customer and the complexity of the product. In Broadband the warranty provision rate can be up to 0.9% of sales value whereas in Wireless the warranty provision is set at a fixed level of 0.32% of sales value. The level of any such provision is necessarily judgmental because many of the group's product ranges are new and there is no extended history of warranty claims upon which to base the level of ongoing provisioning.

The committee considered the provision for warranty claims in light of the claims experience in the current and recent years and the mix of new and established products sold in the year and concluded that the level of provision was appropriate.

**Valuation of goodwill and intangible fixed assets:**

The committee considered the judgments made in relation to the valuation methodology adopted by management and the model inputs used. These are set out in note 15 to the financial statements.

The committee also reviewed and approved sensitivities used by management which were consistent with the 2014/15 financial year and a "reasonably possible" change to model inputs as required by IAS36. The committee agreed with the judgments made by management and concluded that no impairment of goodwill or tangible fixed assets was required.

**Going Concern:** The Group's going concern assessment is set out in the Directors' Report on pag 43. The Group has been very focused on its ability to continue to trade as a going concern during the year given that it has been loss making, and has spent an extended period looking at various ways of raising additional equity capital. Both during the year and as part of the year end audit process, the committee has considered management's detailed analysis of future cash flows and evaluated the appropriateness of the going concern basis of preparation having regard to both the

sensitised future cash flows and the proposed placing which at the date of this report is subject to shareholder approval. The committee has concluded that the going concern basis should be adopted.

The Company's management and auditor confirmed to the audit committee that they were not aware of any material misstatements. Having reviewed the reports received from management and the auditor, the committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust. The committee considers that KPMG has carried out its duties as auditor in a diligent and professional manner.

As part of the review of auditor independence, KPMG has confirmed that it is independent of the company and has complied with applicable auditing standards. KPMG has held office as auditor for 13 years; in accordance with professional guidelines the engagement partner is rotated after at most five years and the current partner is in his second year on the engagement.

In assessing the auditor's effectiveness, the committee:

- challenged the work done by the auditor to test management's assumptions and estimates in the key risk areas;
- reviewed reports received from the auditor on these and other matters;
- received and considered feedback from management; and
- held private meetings with the auditor that provide the opportunity for open dialogue and feedback between the Committee and the auditor without management being present.

In addition, the Chairman of the Committee has discussions by telephone and in person with the audit lead partner outside the formal committee process throughout the year.

Having completed its review, the audit committee is satisfied that KPMG remained effective and independent in carrying out its responsibilities up to the date of signing this report and believes that it would not be appropriate to put the audit appointment out to tender at the present time although this is kept under review. Accordingly, KPMG LLP will be proposed for re-appointment as auditor at the annual general meeting.

After careful consideration of the advice of the audit committee, the board has concluded that the 2015 annual report is fair, balanced and understandable and provides the necessary information for the company's shareholders to assess the group's risks, performance, business model and strategy.



# Nominations committee report

## Nominations committee responsibilities

The principal duties and responsibilities of the committee include: reviewing the structure, size and composition of the board, ensuring that succession planning is considered, reviewing the leadership requirements of the company (both executive and non-executive), keeping up to date and informed about strategic issues and commercial changes affecting the company and the market in which it operates. The terms of reference for the nominations committee are formally approved by the board and are available on the company's website.

The committee is required to meet twice during the year. The nominations committee met four times during the year to consider succession planning, board composition and balance of skills on the board. The membership of the nominations committee during the year was comprised as follows: Howard Ford (Chairman), Graham Meek, Reg Gott and Michael Roller.

## Activities of the committee

At its meetings during the year, the committee discharged its responsibilities as outlined above. Following the resignation of Alan Needle as CEO in March 2015, the committee appointed Rob Smith (who was recruited as CFO in June 2014) to replace him as CEO. In due course, the committee intends to appoint a separate finance director, to enable Rob Smith to focus solely on his role as CEO. The search for an FD will formally begin when the Company has gained admission to AIM and the placing which was announced on 27th August 2015 has been successfully concluded.

The committee considers that the current composition of the committee was appropriate to provide the proper governance, composition and guidance to the company's business during the year. It has already been announced that neither Graham Meek nor I will be standing for re-election at the forthcoming AGM in November 2015. It is anticipated that the nominations committee (as well

as the Board) will in the short term at least have a more simplified structure. After the company's admission to AIM, the committee is likely to consist as follows: Reg Gott as Chairman (subject to his re-election at the AGM) and Michael Roller as the other committee member and senior independent director. However, the committee expects to undertake a thorough review of the size structure and composition both of the Board and of all of its committees as soon as the placing and the admission to AIM has been completed.

## Boardroom diversity

Although the company has no separate specific policy on diversity (other than its employment policy for non-discrimination), diversity (including gender) is considered when the board is evaluating its performance and its balance of skills, experience, knowledge and independence and especially when recruiting new members to the board.

The company, the board and the nominations committee values and supports the aims of the Davies Report on women on boards and noting that there is currently no female representation at board level (other than the general counsel and company secretary), the committee will keep under review whether a formal measurable objective should be set for female representation at board level.

There is always room for improvement and in the coming year the committee will be concentrating on our longer term vision and ensuring that the board (both executive and non-executive) has the optimal range of skills, experience, diversity and personalities to succeed.

Yours sincerely

**Howard Ford**

Chairman nominations committee  
28 September 2015

# Directors' remuneration report

## Annual statement on remuneration

Dear fellow Shareholder,

I am pleased to present the Filtronic directors' remuneration report for the year ended 31 May 2015. This report describes how the board has applied the principles of the UK Corporate Governance Code relating to directors' remuneration and is split into two constituent parts:

- The directors' remuneration policy was approved for a 3-year term by binding vote at the 2014 AGM. No changes are proposed for 2015-16 and so the policy is therefore included here for completeness of information only.
- The annual report on remuneration (ARR) sets out payments and awards made to the directors and senior management and details the link between company performance and remuneration for the 2014-15 financial year. The ARR is subject to an advisory shareholder vote at the 2015 AGM.

The remuneration committee comprises all non-executive directors, including the chairman. It defines the company's policy on remuneration, benefits and terms of employment for executive directors and senior management. The committee also reviews and approves general increases in staff salaries and bonus arrangements and takes these into account when setting remuneration packages for executive directors and senior management.

The committee has reviewed the remuneration packages of the executive director and senior management to ensure these continue to attract, retain and motivate talented people, while recognising wider shareholder interest. The committee reviews all incentive-based rewards before they are awarded and has full discretion to adjust awards downwards if deemed appropriate.

The remuneration committee terms of reference are available to view at [www.filtronic.com](http://www.filtronic.com).

The remuneration committee met four times during the year and ad-hoc when needed.

**Reg Gott**

Chairman, remuneration committee  
28 September 2015

## Directors' remuneration policy

The main aim of the group's remuneration policy is to align the interests of executive directors and senior management with the group's business strategy and the creation of long-term shareholder value. The current policy is valid until the end of FY2017. The Policy is comprised of four distinct parts: (i) a future policy table for executive directors; (ii) remuneration policies for the Chairman and non-executive directors (iii) a chart illustrating the relationship between Filtronic's performance and the resulting remuneration using various scenarios and (iv) other policies relating to executive director remuneration, recruitment, service contracts and termination.

The following table applies to executive directors and senior management (as deemed appropriate by the remuneration committee).

Future policy table — executive directors

Element	Purpose and Link to Strategy	Operation	Opportunity	Performance Measures & Period
<b>Base Salary</b>	This element is set to reflect expected contribution to delivering the Company's business plans and to allow Filtronic to recruit and retain executive directors of the calibre needed to develop and deliver the company's strategy.	Reviewed annually with any change effective from 1st July, or following a significant change in responsibilities.  When setting salary, the Committee considers the level of increase for employees in general, market data, business performance, external economic factors, the complexity of the business and the role, and the director's experience and performance.	The Board retains discretion to make exceptional salary increases above inflation and above the general level of increases throughout the group in situations, for example, where the executive has been promoted or gains a clear increase in responsibility.	The Board retains discretion to make exceptional salary increases above inflation and above the general level of increases throughout the Group in situations, for example, where the executive has been promoted or gains a clear increase in responsibility.
<b>Benefits</b>	To provide reasonable benefits which are competitive in the market.	The taxable benefits in kind comprise principally a fully expensed company car (or cash equivalent) and private healthcare. Life assurance and income support are also part of the benefits on offer but are conditional on the employee joining the Filtronic stakeholder scheme. Relocation assistance and other benefits are customarily provided in the relevant location where applicable.	Benefits will vary by role, and the level is determined to be appropriate for the role and circumstances, including country of domicile, of each individual executive director.  It is not anticipated that the current cost of benefits will increase materially over the term of this policy, but the Board retains the discretion to approve additional benefits in exceptional circumstances (e.g. relocation expenses or an expatriation allowance on recruitment, etc).	None.

Element	Purpose and Link to Strategy	Operation	Opportunity	Performance Measures & Period
<b>Pension contribution</b>	To provide retirement provision, on the same basis as that available to other employees.	<p>The company contributions are set as a percentage of base salary and overall contributions are paid monthly. Only base salary is pensionable. The Company also operates a cash alternative scheme, (which is at no additional cost to the Company), when Life Time Allowances are reached.</p> <p>The Company operates pension auto-enrolment and executive directors as well as other employees are assessed and, where eligible, are subject to auto-enrolment in line with the regulations.</p>	Under the Filtronic plc Stakeholder Pension Plan (a defined contribution plan) the maximum contribution the company makes is 8% of base salary if the employee makes a contribution of 6%. The pension scheme inherited from the acquisition of the Wireless business in 2010 is also a defined contribution scheme. The maximum contribution the company makes to those who were employed by the acquired entity at the time of acquisition is 10% of base salary if the member makes a contribution of 5%.	None.
<b>Annual bonus</b>	To retain, incentivise and reward performance against annual financial, strategic and operational objectives which are consistent with the medium term goals of Filtronic.	<p>The award of annual bonus is assessed after the financial year end (when audited results are available) by the committee based on performance against targets set at the beginning of the year.</p> <p>Historically, annual bonus targets have principally been financial targets (operating profit and cash generation), equally weighted in terms of bonus opportunity.</p> <p>The committee believes this to remain an appropriate structure for the annual bonus and will continue to apply it.</p> <p>Threshold vesting occurs such that at 0% bonus is triggered if the threshold targets are achieved, rising on a straight line basis to the maximum bonus opportunity in the event that the maximum performance targets are achieved.</p>	For performance in line with expectations (the lower threshold) 0%, is accrued, up to a Maximum: 50% of salary for achieving the upper threshold;	<p>Annual targets are set to reflect the momentum in the business, the potential market opportunity, shareholder expectations and strategic plans but will always require management to deliver a stretching performance.</p> <p>In exceptional circumstances the board retains the discretion to change measures or targets at the half year to ensure alignment of pay with the underlying objectives and performance of the business during the year. If applied, the committee will provide a full explanation of why such discretion was applied in the following year's remuneration report</p>



## Directors' remuneration policy continued

Element	Purpose and Link to Strategy	Operation	Opportunity	Performance Measures & Period
<b>ESOP</b>	To incentivise long term value creation through aligning the interests of executives and shareholders through the grant of share options.	<p>The committee can make share option awards to executive directors under the Filtronic plc employee share option plan.</p> <p>These take the form of awards of an option to acquire shares in the company at the market price on the date of grant of the option. The share options are subject to performance criteria being met over a vesting period.</p> <p>Awards may be adjusted to reflect a change in the capital structure of the company.</p>	Options over shares up to a maximum value of 100% of salary based on the market value of shares at the date of the grant of option.	Performance measures are selected for each grant to reflect strategic priorities. The share options have a three year vesting period.
<b>Long Term Incentive Plan ('LTIP')</b>	<p>To incentivise long term value creation through aligning the interests of executives and shareholders through the grant of an award in shares.</p> <p>The selected performance targets support the long term strategy of Filtronic and aid retention of executive directors.</p>	<p>The committee can make annual share based awards to executive directors and certain senior managers under the Filtronic plc performance share plan approved by shareholders in September 2008. These awards take the form of conditional nil cost options.</p> <p>The committee usually grants awards annually and performance targets are measured on company performance over a 3-year period.</p> <p>Directors are encouraged but not required to hold the relevant awards for at least a two year period, subject to satisfying any associated tax liabilities.</p> <p>In 2014 the board introduced an element of deferral into the LTIP scheme such that 50% of any awarded shares will be subject to deferred exercise for 2 years. Executive directors are required to achieve within 5 years and maintain thereafter a shareholding value equivalent to at least annual salary. Awards may be adjusted to reflect a change in the capital structure of the Company.</p>	<p>Maximum value: 100% of base salary.</p> <p>The normal maximum level of award for Executive Directors is 50% of salary with, in exceptional circumstances, a maximum level at 100%.</p> <p>On-target performance will result in 25% vesting of the maximum award.</p>	The LTIP scheme performance measure is the increase in EPS over a 3 year period. The Board believes this is an appropriate measure for the company of Long Term Performance for the purpose of an LTIP.
<b>Participation in other all employee share-based plans</b>	To encourage executive share ownership using HMRC approved schemes.	<p>Executive directors can choose to participate in the Company's Approved Save As You Earn Share Option Scheme on the same terms as other UK employees. In accordance with the Scheme and UK tax rules, share options may be granted with an exercise price that is set at a discount (currently up to 20%) to the market value of Filtronic's shares at the date of invitation.</p> <p>Options may be adjusted to reflect a change in the capital structure of the Company.</p>	Up to the maximum monthly saving amount as permitted by HMRC.	n/a

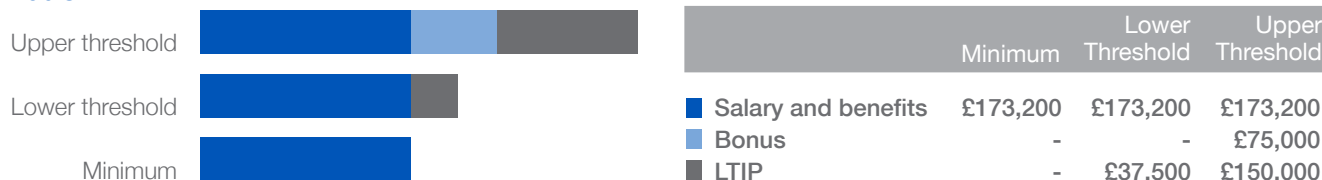
## Performance measures and targets

The Committee believes that, due to commercial sensitivity, it would not be in the best interests of shareholders if it publicly declared company performance targets for bonuses for the year ahead. Consequently, the performance targets for 2016-17 will not be declared in this report but will be declared retrospectively in the FY2017 Annual Report.

In terms of the LTIP scheme awards, the committee has determined that EPS growth compounded over three years will remain the performance target for determining LTIP vesting. Lower and upper targets will be set each year an LTIP is launched and if the lower target is not met after the 3 years the LTIP will lapse. On achieving the lower target the LTIP will vest at 25% of the potential and then continue to vest on a straight line basis until the upper target is achieved, at which point the maximum LTIP potential will vest. The committee believes this scheme will clearly align the motivation of the executive directors with shareholder interests.

## Illustration of application of Filtronic's remuneration policy for FY2016 (on the basis that the grant of LTIPs will be 50% of salary)

### Rob Smith



In order to illustrate the potential opportunity available to the executive directors and the sensitivity of pay to performance, the charts above set out outcomes for three performance levels:

- Minimum: Pay is limited to fixed elements of salary, pension allowance and taxable benefits and no vesting under any of the long term incentive plans.
- Achievement of lower threshold: Fixed pay and long-term incentives vest at 50% of the maximum.
- Achievement of upper threshold: Fixed pay plus bonuses at the maximum opportunity and long-term incentives vest at 100% of the maximum.

It is our intention to reward success. The policy is for a significant proportion of executive directors' total remuneration to be capable of being earned from variable, performance-based incentives. The objective of this policy is to provide rewards and incentives for success. More than half of each director's potential remuneration is variable and can only be earned by good group performance reflected in achievement of measurable objectives.

## Directors' remuneration policy continued

### General remuneration policy for employees

All Filtronic employees are entitled to an annual pay review, pension participation and Sharesave plan participation. Depending upon role and seniority, some employees may also benefit from private healthcare, an annual bonus plan and use of a company leased car (or cash equivalent allowance). In addition, the most senior management staff may also benefit from participation in the executive LTIP. The levels of participation in all bonuses and LTIPs are determined by the board via the remuneration committee in consideration of role responsibility and individual performance contribution.

### Recruitment policy

The committee recognises the importance of attracting the best talent available to the company in order to deliver company strategy and long term shareholder value. The company will, therefore, on recruitment of executive directors or senior management staff, or on the promotion of internal staff to an executive or senior management role, apply the remuneration policy in full. The committee will not approve joining bonuses but will retain the discretionary authority to set first year annual bonus performance targets for new recruits different to those for the other participants in order to reflect a commencement period after budgets have been set and to also offer at commencement the immediate participation in the then current year LTIP plan.

### Exit payments

When determining any loss of office payment for a departing executive director or senior manager the committee will ensure that a consistent approach is adopted so that there is no reward for poor performance and the liabilities of the group are minimised where appropriate. The underlying principle to be applied is that an individual shall not receive more remuneration benefits as a consequence of his /her departure than he /she would have been contractually entitled to had he/she continued in employment with the company in the same capacity for his /her full notice period, with the exception that, for "good leavers" the committee will retain discretionary authority over the grant of pro-rata LTIP, Sharesave and ESOP awards.

No severance payment shall be made to any employee who is dismissed for serious breach of contract, serious misconduct or under-performance or any acts or omissions that bring the company into disrepute.

### Executive directors' service agreements

The executive directors have service contracts with an indefinite term with notice periods of no more than 12 months. The committee considers these notice periods to be reasonable and proper and in the best interests of all stakeholders.

Executive directors may accept one appointment as a non-executive director of another company and retain any fees received, provided such an appointment does not conflict with their duties to Filtronic. Specific approval of the board is required in each case. No executive director currently serves as a non-executive directors of another company.

## Future policy table — non-executive directors

Alignment with strategic objectives	Operation	Maximum Level	Performance Measures and Targets
<b>Chairman and non-executive director fees</b>  To attract and retain high calibre individuals who have the experience to conduct both statutory duties of directors as well as advise on company strategy and oversee its implementation.	<p>Fee reviews are conducted annually, and take into account economic conditions, market levels and the time commitment and contribution of each individual as well as the affordability for the company.</p> <p>The chairman and the non-executive directors are paid an inclusive fee regardless of whether they serve as chairman or a member of the remuneration committee and / or audit committee, or if they are elected as Senior Independent Director.</p> <p>Fees are payable entirely in cash. Neither the chairman nor the non-executive directors are permitted to participate in the company's performance-based incentive plans.</p>	<p>It is anticipated that any increases to fee levels will typically be in line with market levels of fee inflation. In exceptional circumstances (e.g. material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a non-executive director role) the Board retains the discretion to make appropriate adjustments to fee levels to ensure they remain market competitive and fair to the director.</p>	n/a

## Non-executive directors' terms of appointment

Non-executive directors are appointed for an initial period of three years with subsequent three year reviews and can be terminated with three months' notice. The chairman's appointment can be terminated by the company on six months' notice.

## Consideration of shareholder views

When determining remuneration, the committee takes into account the views of the company's shareholders and guidelines set by shareholder representative bodies such as the ABI and ISS. The Board always welcomes feedback from shareholders on the company's remuneration policy and commits to undergoing shareholder consultation in advance of any significant changes to policy. Detail on the votes received on the directors' remuneration report at the AGM is provided in the following year's ARR. The results of the vote at the 2014 AGM is set out on page 39 below.

The committee did not consult with employees when preparing the directors remuneration policy for this report.



# Annual report on remuneration

Details of the service contracts currently in place for directors are as follows:

Name	Executive service agreement appointment date	Key current terms
<b>Rob Smith CEO &amp; CFO</b>	Appointed to the board on 16 June 2014 Appointed CEO on 3 March 2015 (No changes were made to his remuneration terms)	Base salary £150,000 Annual bonus potential 50% of salary Health insurance Potential LTIP 50% of salary Car allowance Pension

Name	Role	Non-executive terms of appointment date	Fee
<b>Howard Ford</b>	Chairman	Appointed to the board on 5 December 2008 Appointed as chairman on 18 September 2009	£70,000
<b>Graham Meek</b>	Senior non-executive director and audit committee chairman	Appointed to the board on 5 November 1999	£40,000
<b>Reg Gott</b>	Remuneration committee chairman	Appointed to the board on 13 July 2007	£40,000
<b>Michael Roller</b>		Appointed to the board on 1 June 2013	£40,000

Certain sections of the Remuneration Report constitute the audited part of the reports of the Remuneration Committee.

In 2014 the Committee sought external independent advice from Ernst & Young in reviewing and revising the Executive Director and Senior Management Remuneration Policy. The revised Policy was implemented at the 2014 AGM.

## Total single figure of remuneration for executive directors

The executive directors' total remuneration in respect of the year under review is shown below and compared to the previous year. The information in these tables has been audited by the company's independent auditors.

£000's	Salary or fee		Bonus		Benefits		Total remuneration excluding pension contributions and share based payments	
	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014
<b>Executive directors</b>								
<b>Rob Smith ***</b> (Appointed 16 June 2014)	<b>143</b>	-	<b>50</b>	-	<b>10</b>	-	<b>203</b>	-
<b>Alan Needle*</b> (Resigned 3 March 2015)	<b>279</b>	199	-	-	<b>7</b>	9	<b>286</b>	208
<b>Michael Brennan**</b>	-	222	-	-	-	8	-	230
<b>Non-executive directors</b>								
<b>Howard Ford</b>	<b>70</b>	70	-	-	<b>1</b>	1	<b>71</b>	71
<b>Graham Meek</b>	<b>40</b>	40	-	-	-	-	<b>40</b>	40
<b>Reg Gott</b>	<b>40</b>	40	-	-	-	-	<b>40</b>	40
<b>Michael Roller</b>	<b>40</b>	40	-	-	-	-	<b>40</b>	40
<b>Total</b>	<b>612</b>	611	<b>50</b>	-	<b>18</b>	18	<b>680</b>	629

\* Alan Needle received exit payments as part of his remuneration in the year, see 'payments to past directors and exit payments', page 39.

\*\* Michael Brennan received exit payments as part of his remuneration in the year.

\*\*\* Rob Smith was appointed CFO on 16th June 2014 and appointed CEO on 3rd March 2015. Given the difficult circumstances at the time of Mr Smith's appointment to the position of CEO, he was awarded a 2-part retention payment comprising £50,000 for remaining in post and not having served notice before 31st May 2015 and a further £50,000 to be paid for remaining in post and not having served notice by 31st December 2015.

The non-executive directors deferred receipt of their fees from March 2015 until the 2015 AGM in November 2015. The numbers stated above includes an accrual for their fees

### Total Single figure of pension benefits for directors

The Executive Directors' total pension benefits in respect of the year under review are shown below and compared to the previous year. The information in these tables has been audited by the company's independent auditors.

£000's	Pension Contributions	
	FY2015	FY2014
Rob Smith	12	-
Alan Needle	-	16
Michael Brennan	-	8
<b>Total</b>	<b>12</b>	<b>24</b>

Contributions were made to the company defined contribution scheme.

### Notes to the single figure table of remuneration for directors - audited

#### Taxable benefits

Taxable benefits in kind were unchanged in FY2015 and comprised car allowance and private health insurance.

In addition to these taxable benefits, the executive directors are provided with life assurance.

#### Incentive outcomes for FY2015

Neither the profit nor the operating cash targets required to trigger an annual bonus payment were achieved in FY2015, therefore no performance incentive payments were made.

#### Payments to past directors and exit payments

Alan Needle, formerly the CEO, resigned during the year. Alan, at the request of the Board, worked and provided continuing full service until the date of his departure, 13th March 2015. Payments to Mr Needle include pay in lieu of notice of £111,356 which is included in the salary column in the table entitled 'total single figure for remuneration for directors'. In accordance with policy no other exit payments were made. The payment in lieu of notice is payable in four equal instalments of £27,839 with the first commencing on 1st September 2015 and the remaining 3 instalments being paid on 1st March 2016, 1st September 2016 and 1st March 2017.

#### Statement on voting at the 2014 annual general meeting

The voting on the directors' remuneration report at the 2014 AGM was as follows:

	Shares
<b>For/ discretionary</b>	57,819,529
<b>Against</b>	19,658
<b>Withheld</b>	11,330

### Statement of implementation of remuneration policy in 2015 -16

The remuneration policy, as set out on pages 32 to 36, will be implemented, subject to shareholder approval, with effect from the AGM in 2015 as follows:

#### General pay awards

The general pay award review date for the company is July 1st. A general pay award for 2015-6, including the executive and non-executive directors of zero increase has been implemented. This decision will be reviewed at the beginning of December, subject to first half performance.

#### Base salary

Base salary for the CEO in FY2016 will be £150,000.

Executive director	Base salary* as of 1 July 2015	Base salary* as of 1 July 2014	% Change
<b>Rob Smith</b>	<b>£150,000</b>	£150,000	nil%

\*Base salary is the only pensionable portion of the remuneration package

# Annual report on remuneration continued

## Pension and benefits

Executive directors will continue to receive pension contributions and benefits as described on pages 32 to 37 of the directors' remuneration policy.

## Annual cash bonus

The maximum bonus for all executive directors will be 50 % of base salary.

Fifty percent of this bonus potential will be based on delivering operating profit performance and fifty percent on delivering operating cash generation performance. Performance against each target will be independently measured and paid accordingly, i.e. the non-performance against one target will not affect payment for achieving the other target.

## Executive directors

FY2016 annual cash bonus targets (as percentage of basic salary):

Metric	On-target cash bonus	Maximum cash bonus
Operating profit	nil%	25%
Operating cash generation	nil%	25%
<b>Total FY2016 cash bonus potential</b>	<b>nil%</b>	<b>25%</b>

## Long term incentive plan (award as a percentage salary)

Awards may be made under the approved LTIP in FY2016. In accordance with the directors' remuneration policy 50% of Vested Shares will be subject to a 2 year deferral.

Metric	On-target cash bonus	Maximum cash bonus
Operating profit	12.5%	25%
Operating cash generation	12.5%	25%
<b>Total FY2016 cash bonus potential</b>	<b>25%</b>	<b>50%</b>

The awards will be made during FY2016, dependent upon first half performance and full year outlook, but will be subject to approval of the directors' remuneration policy by the shareholders at the 2015 AGM.

Vested shares will be subject to a 50 per cent deferral for two years.

## Non-executive directors

The fees payable to the non-executive directors in FY2016 will be:

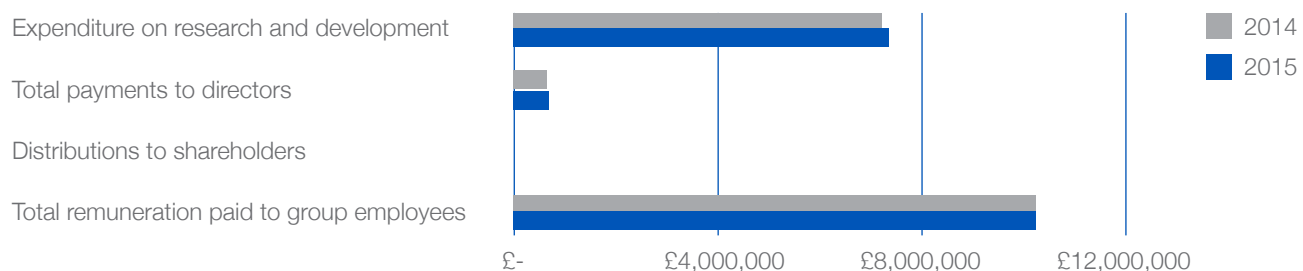
Non-executive director	Fee
Howard Ford *	70,000
Graham Meek *	40,000
Reg Gott **	40,000
Michael Roller	40,000

Fees are flat fees and include payments for chairing any committees

\* Howard Ford and Graham Meek retire from the Board at the 2015 AGM on 27th November 2015.

\*\* Subject to Shareholder approval, Reg Gott will become Chairman at the 2015 AGM on 27th November 2015.

## Relative spend on pay



## Percentage change in the remuneration of the chief executive officer compared with the average remuneration of employees

	2015 £000	2014 £000	% change
CEO total remuneration	213	208	+2.4%
Average employee total remuneration	43	49	-12.2%

## Five year chief executive officer total emoluments

Financial year ended 31 May	CEO	Single total figure of remuneration £000	Annual variable element (% of maximum, including deferred element)	PSP/share options vesting outcome (% of maximum)
2015**	Rob Smith	38	33%	0%
2015	Alan Needle	175	0%	0%
2014	Alan Needle	208	0%	0%
2013*	Alan Needle	232	90%	0%
2013	Hemant Mardia	81	0%	100%
2012	Hemant Mardia	219	49%	n/a
2011	Hemant Mardia	198	0%	n/a

\* Pro-rata from date of appointment as Chief Executive on 1 August 2012.

\*\* Pro-rata from date of appointment as Chief Executive on 3 March 2015.

## Directors' and relevant senior management holdings of Filtronic shares - audited

The interests of the directors, who were serving as at 31 May 2015, in the Company's ordinary shares, which exclude interests under the share option schemes, are set out below:

	2015		2014	
	Shares	%	Shares	%
Rob Smith	57,656	0.1%	-	-
Howard Ford	120,000	0.1%	106,422	0.1%
Reg Gott	154,429	0.1%	102,159	0.1%
Graham Meek	114,722	0.1%	89,722	0.1%
Michael Roller	28,833	0.0%	26,212	0.0%
	475,640	0.4%	324,515	0.3%

All of the above shareholdings are held beneficially and include holdings of directors' connected parties.

Alan Needle resigned as a director on 3 March 2015. At that date he held 2,687,052 shares.

## Directors' interests in Filtronic share schemes and option plans

Directors are not required but are expected to have holdings in the ordinary share capital of the company. The information in the following tables has been audited by the Company's independent auditors.

## Long term incentive scheme: performance shares and nil-cost options - audited

	Vesting Date	2015	Cancelled during the year	2014
Alan Needle	02/Sep/16	-	(253,425)	253,425
		-	(253,425)	253,425

The nil cost options belonging to Alan Needle were cancelled on his departure.



# Annual report on remuneration continued

## Management share option scheme - audited

	Exercise period	Option Price	2015	2014
Rob Smith	14/08/2017 - 13/08/2024	25.75p	<b>175,000</b>	-
			<b>175,000</b>	-

The closing middle market price on 29 May 2015 was 12p, and on 30 May 2014 it was 42p. The range of middle market share prices during the year ended 31 May 2015 was 42p - 11p.

There were no changes in directors' interests between 31 May 2015 and 28 September 2015. The company's register of directors' interests, which is open to inspection at the registered office, contains full details of directors' shareholdings.

## Total shareholder return 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 2010 to 2 June 2015



Source: Thomson Datastream

Note: Rebased to 100 as at 1 June 2010

# Directors' report

The directors present their report together with the audited consolidated financial statements for the year ended 31 May 2015. The corporate governance statement set out earlier in the governance report forms part of this directors' report and is incorporated by reference.

## Going concern

The group's business, together with the factors likely to affect its future development, performance and position are set out in the strategic report.

The group incurred an operating loss of £11.0m during the year mainly because of technical delays and lower than anticipated demand from OEM customers. As a result of this a number of cost reductions were implemented across the group in order to minimise cash outflows including headcount reduction through redundancy and natural attrition, a reduction in non-customer funded developments and the closure of the California office. Subsequent to the year end the company has secured sales invoice financing enabling the group to borrow up to \$3.5m against 80% of the US debtor book. This is in addition to the current facility in the UK enabling the company to borrow up to £2.0m against 65% of the UK debtor book. Whilst these two facilities give the company the ability to finance working capital requirements the Board would be very concerned of any short term weakness in revenues restricting the amount of money the group could borrow.

The company announced on 27 August 2015 that it was proposing to raise £4.5m through a share placing along with a move from the Main to AIM Market of the London Stock Exchange subject to shareholder approval. On the basis the placing is successful, the Board feels confident the company has sufficient financial resources to cover budgeted cash flows and believe the company is well placed to manage its business risks. In arriving at this conclusion, the Board has undertaken a review of its forecasts for the next two years.

Based on a successful placing and in accordance with the corporate governance requirements and the statement of directors' responsibilities on page 45, the directors confirm that they have a reasonable expectation that the group has adequate financial resources to continue to trade for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

The key resolutions requiring shareholder approval at the general meeting are: -

1. THAT the listing of the ordinary shares of 10 pence each in the capital of the Company on the premium segment of the official list of the UK Listing Authority and admission to trading on the London Stock Exchange plc's main market for listed securities be cancelled and application be made for admission

of the Company's ordinary shares to trading on the AIM market operated by the London Stock Exchange plc and the directors of the Company be and are hereby authorised to do and/or procure to be done all such acts and/or things as they may consider necessary or desirable in connection therewith.

2. THAT, subject to and conditional on the passing of Resolution 1 and with effect from immediately prior to Admission (as defined in the circular to the Company's shareholders dated 28 September 2015 of which this notice forms part):

- (a) each ordinary share of 10 pence each in the capital of the Company be sub-divided and reclassified into one new ordinary share of 0.1 pence having the same rights and being subject to the same restrictions as the existing ordinary shares in the capital of the Company and one new deferred share of 9.9 pence (a "Deferred Share") having the rights and being subject to the restrictions attached to Deferred Shares as set out in the new articles of association of the Company; and
- (b) the new articles of association produced to the meeting be and are hereby adopted as the articles of association of the Company with effect from immediately prior to Admission, to the exclusion of, and in substitution for, the existing articles of association of the Company.

3. THAT, subject to and conditional upon resolutions 1 and 2 being passed, the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company in accordance with section 551 of the Companies Act 2006 (the "Act") to allot new ordinary shares of 0.1 pence each in the capital of the Company (the "ordinary shares") up to and including an aggregate nominal amount of £90,000 (equal to 90,000,000 ordinary shares) in connection with the Placing (as defined in the circular to the Company's shareholders dated 28 September 2015 (the "Circular")), of which this notice forms part, which authority shall be in addition to any existing authorities conferred on the Directors, which shall continue in full force and effect. The authority conferred by this resolution shall expire on 31 December 2015 (unless previously revoked or varied by the Company in general meeting), save that the Directors may, before such expiry, revocation or variation, make an offer or agreement which would or might require ordinary shares to be allotted after such expiry, revocation or variation and the Directors may allot ordinary shares in pursuance of such an offer or agreement as if the authority hereby conferred had not expired or been revoked or varied.

At 31 May 2015 the group had a cash balance of £1.1m including £0.3m of interest bearing borrowings giving a net cash position of £0.8m.

# Directors' report continued

## Directors and their interests

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

Rob Smith (appointed 16 June 2014)  
 Alan Needle (resigned 3 March 2015)  
 Howard Ford  
 Graham Meek  
 Reg Gott  
 Michael Roller

Details of directors' interests in the share capital of the company are set out in the remuneration report on page 41.

Howard Ford retires by rotation and will not be offering himself for re-election.

Reg Gott retires by rotation and, being eligible, offers himself for re-election at the annual general meeting.

Graham Meek, having served on the board for more than nine years, retires by rotation and will not be offering himself for re-election.

## 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.

## Research and development expenditure

Research and development costs were £6.5m (2014: £6.4m).

## Substantial shareholdings

Up to 31 May 2015 the company had been notified, in accordance with chapter 5 of the disclosure and transparency rules, of the following voting rights as a shareholders of the company. An analysis of shareholders as at 31 May 2015 (as

disclosed by shareholders via TR1), is set out in the table below. As at 31 May 2015 the company had issued share capital of 106,876,986 10p ordinary shares.

## Financial results and dividend

The results for the year are set out in the income statement on page 49. The position at the end of the year is shown in the balance sheet on page 51.

The directors are not recommending payment of a dividend (2014: nil).

## Share capital

The company's share capital consists of 10p ordinary shares. The rights and obligations attached to each share are equal. Each share carries the right to one vote at general meeting of the company and carries no right to fixed income. 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 in September 2014.

## Emissions statement

All disclosures concerning the group's greenhouse gas emissions required by the mandatory carbon regulations are contained in the corporate social responsibility report which forms part of the strategic report on pages 21 to 22.

## Political and charitable contributions

No contributions were made for political purposes. The group donated £nil (2014: £100) to various charities.

## Equal opportunities

The directors are committed to ensuring that there are equal opportunities throughout the group for all employees with no discrimination on account of race, gender, age, sexual orientation, disability, political views or religious beliefs.

## Disabled employees

Applications for employment by disabled persons are always welcome and fully considered bearing in mind the skills and aptitude of the applicant concerned. Where an employee becomes disabled, all reasonable efforts are made to ensure that employment with the group continues and that appropriate training is arranged. It is the policy of the group to ensure that the training, career development and promotion

## Top Investors

Rank	Investor	29-May-15	% IC
1	Aberforth Partners LLP	26,160,008	24.48
2	Legal & General Investment Management	18,768,372	17.56
3	Prof John D Rhodes	6,548,642	6.13
4	River & Mercantile Asset Management	4,003,718	3.75
5	Hargreave Hale	3,942,180	3.69
6	M&G Investment Management	3,828,324	3.58
7	Henderson Global Investors	3,598,753	3.37

of disabled persons should, as far as possible, be identical to that of other members of staff.

### Employee communication

Employee engagement with its strategy and values is vital to the success of the group. The directors place great importance on keeping employees informed on matters that affect them as employees as well as matters that affect the performance of the group. This is achieved through formal and informal meetings as well as through group communications sessions.

### Annual general meeting

The annual general meeting of the company will be held on 27 November 2015 at the offices of KPMG LLP, 1 Sovereign Square, Leeds LS1 4DA. Full details of the business to be transacted at the meeting will be set out in the notice of annual general meeting.

### 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 strategic report, 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.

- The directors, as at the date of this report, whose names and functions are listed in the board of directors on page 25 confirm that, to the best of their knowledge:
- the financial statements, which have been 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 strategic report includes a fair review of the development of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the risks and uncertainties they face.

### Statement of directors' responsibilities

#### 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.

### Auditor

KPMG LLP has expressed a willingness to continue in office as auditor and a resolution to reappoint KPMG LLP will be proposed at the forthcoming annual general meeting.

### Maura Moynihan

Company secretary  
28 September 2015



# Independent auditor's report to the members of Filtronic plc only

## Opinions and conclusions arising from our audit

### 1. Our opinion on the financial statements is unmodified

- We have audited the financial statements of Filtronic Plc for the year ended 31 May 2015 set out on pages 49 to 81. 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 2015 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- 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.

### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

#### Valuation of goodwill and intangible assets (£3.4 million)

*Refer to page 29 (Audit Committee Report), 61 (accounting policy) and page 69 (financial disclosure).*

- The risk: The risk relating to the valuation of goodwill and intangible assets arises from the financial performance of the group during the year, and in particular the loss recognised in the Wireless cash-generating unit (CGU). The value in use impairment assessment is based on forecasts of future cash flows expected to be generated by the CGU which can be uncertain in value and timing due to the nature of products that are specific to individual customers.
- Our response: Our audit procedures included analysis of the value in use calculation used by the Directors. In assessing the appropriateness of these calculations we have considered key assumptions used in the value-in-use model, namely the sales forecasts, discount rate and future growth rates, and compared these to externally derived data, including customer correspondence, as well as our knowledge of the business. We have tested the Group's budgeting process upon which forecasts are based and the principles and integrity of the assumptions and methodology

used. We performed sensitivity analysis on the valuation and range of assumptions used by the group. We have also considered the adequacy of the Group's disclosures in respect of the impairment analysis.

#### Valuation of inventories (£1.6 million)

*Refer to pages 29 (Audit Committee Report), 59 (accounting policy) and page 70 (financial disclosure).*

- The risk: The risk relating to the valuation of inventories arises from the judgement required to estimate net realisable value. Products are hi-tech and often specific to individual customers which means that net realisable value is determined by the Directors' estimate of forecast customer demand and selling price. The nature of the business means that there can be inherent uncertainty in customer volume forecasts whilst price is also subject to change.
- Our response: Our audit procedures included testing the ageing profile of inventories and identifying slow moving and obsolescent items. We compared the carrying amount of inventories to subsequent sales activity for these products. We also assessed the accuracy of the inventory provision in previous years compared to the margin achieved. We considered all the individual components of the current year inventory provision and assessed whether the assumptions applied in the calculation are underpinned by forecasts prepared for the Group for the next two years.

#### Warranty provisions (£0.1 million)

*Refer to page 29 (Audit Committee Report), 60 (accounting policy) and page 72 (financial disclosure).*

- The risk: The Group's products are sold with warranties. Determining the amount of provision to be recognised requires the Group to make judgements and estimates over expected future claims that are inherently subjective. Due to the nature of the products there is a risk that a warranty claim may be made at any time, and for any value, and therefore the provision could be materially misstated.
- Our response: Our audit procedures included considering the extent to which the Directors' estimates of the costs of future warranty claims take into account the latest available information regarding the incidence and costs of historical warranty claims. We also tested the Group's historical experience in assessing the level of provision required by comparing warranty costs incurred with provisions made.

#### Going concern

*Refer to page 29 (Audit Committee Report), and 56 (accounting policy).*

- The risk: The Group has generated a loss for the year

and is reliant on achievement of forecasts, on the available banking facilities in the UK and the US, and the proceeds from the equity placing announced on 27 August 2015 in order to fund the business throughout the next 12 months. The cash requirements of the Group are difficult to forecast due to uncertainty over the timing of future sales. The equity placing is conditional on the passing of resolutions at the general meeting and the subsequent switch of the Group to be listed on the AIM market.

- Our response: Our audit procedures included analysis of the cash flow forecast of the Group. We challenged the assumptions and methodology used in the cash flow forecast, in particular the assumptions over the timing of revenue growth, the inclusion of placing proceeds, and the use of available bank facilities. We performed sensitivity analysis on the forecasts and range of assumptions used by the Group. We obtained letters confirming existing and new shareholder irrevocable commitment to the placing proceeds, details of the outcome of previous shareholder meetings, and documentation regarding UK and US banking facilities. We have also considered the adequacy of the Group's disclosures in respect of going concern.

### 3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £400,000. This has been determined with reference to a benchmark of Group loss before tax from continuing operations of which it represents 4%.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £20,000 in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Of the group's five reporting components we subjected three to audits for group reporting purposes and two to a review of financial information due to their small size relative to the group.

The components within the scope of our work accounted for the following percentage of the groups results:

	Audits for group reporting purposes	Review of financial information	Total
Group revenue	98%	2%	100%
Group loss before tax	99%	1%	100%
Group assets	98%	2%	100%

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materiality, which was set at £300,000, having regard to the size and risk profile of the component. The work on one of the five components was performed by component auditors and the rest by the Group audit team.

The Group audit team visited the following locations: United Kingdom and United States. Regular e-mail contact was maintained with the overseas audit team throughout the process, including discussions on issues as they arise and the engagement partner visited the component auditor in the United States and performed a review of the audit work performed.

### 4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and 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 Governance Report set out on pages 24 to 27 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.

### 5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

# Independent auditor's report

## to the members of Filtronic plc only continued

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' report, set out on page 43 to 45, in relation to going concern; and
- the part of the Governance Statement on pages 24 to 27 relating to the company's compliance with the ten provisions of the 2012 Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

### Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 45, the Directors are responsible

for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Johnathan Pass (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*

1 The Embankment  
 Neville Street  
 Leeds  
 LS1 4DW  
 28 September 2015

# Consolidated income statement

for the year ended 31 May 2015

		Group	
	Note	2015 £000	2014 £000
<b>Revenue</b>		<b>17,524</b>	32,900
<b>Operating loss before amortisation and exceptional items</b>		<b>(8,136)</b>	(442)
Amortisation of intangibles		(2,418)	(2,419)
Exceptional items	5	(491)	(825)
<b>Operating loss</b>	4	<b>(11,045)</b>	(3,686)
Finance income	11	-	13
<b>Loss before taxation</b>		<b>(11,045)</b>	(3,673)
Taxation	12	537	858
<b>Loss for the period</b>		<b>(10,508)</b>	(2,815)
<b>Basic and diluted loss per share</b>	13	<b>(10.68p)</b>	(2.90p)

The loss 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.



# Consolidated statement of comprehensive income

for the year ended 31 May 2015

		Group	
	Note	2015 £000	2014 £000
Loss for the period		(10,508)	(2,815)
Other comprehensive income			
Items that are or may be subsequently reclassified to profit and loss:			
Currency translation movement arising on consolidation	26	236	(474)
<b>Total comprehensive income for the period</b>		<b>(10,272)</b>	<b>(3,289)</b>

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.

# Consolidated balance sheet

at 31 May 2015

		Group	
	Note	2015 £000	2014 £000
<b>Non-current assets</b>			
Goodwill and other intangibles	15	3,377	5,653
Property, plant and equipment	16	1,796	2,865
Deferred tax	19	-	485
		<b>5,173</b>	9,003
<b>Current assets</b>			
Inventories	17	1,646	3,933
Trade and other receivables	18	7,906	9,941
Cash and cash equivalents		1,087	2,531
		<b>10,639</b>	16,405
<b>Total assets</b>		<b>15,812</b>	25,408
<b>Current liabilities</b>			
Trade and other payables	20	6,577	7,447
Provisions	21	111	333
Deferred income	22	21	169
Interest bearing borrowings	35	320	—
		<b>7,029</b>	7,949
<b>Non-current liabilities</b>			
Deferred tax	19	-	485
Deferred income	22	54	75
		<b>54</b>	560
<b>Total liabilities</b>		<b>7,083</b>	8,509
<b>Net assets</b>		<b>8,729</b>	16,899
<b>Equity</b>			
Share capital	24	10,688	9,716
Share premium	25	6,199	5,145
Translation reserve	26	(200)	(436)
Retained earnings	28	(7,958)	2,474
<b>Total equity</b>		<b>8,729</b>	16,899

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

Company number 2891064

Approved by the Board on 28 September 2015 and signed on its behalf by

**Rob Smith**

Chief Executive Officer

28 September 2015

# Consolidated statement of changes in equity

for the year ended 31 May 2015

	Note	Group	
		2015 £000	2014 £000
Opening total equity		16,899	20,198
Total comprehensive income for the period		(10,272)	(3,289)
New shares issued (net of issue costs)	24,25	2,026	50
Share-based payments	31	76	(60)
<b>Closing total equity</b>		<b>8,729</b>	16,899

# Company statement of changes in equity

for the year ended 31 May 2015

	Note	Company	
		2015 £000	2014 £000
Opening total equity		17,161	18,281
Total comprehensive income for the period		(538)	(1,038)
New shares issued (net of issue costs)	24,25	2,026	50
Share-based payments	31	(13)	(132)
<b>Closing total equity</b>		<b>18,636</b>	17,161

# Consolidated cash flow statement

for the year ended 31 May 2015

		Group	
	Note	2015 £000	2014 £000
<b>Cash flows from operating activities</b>			
Loss for the period		(10,508)	(2,815)
Taxation		(537)	(858)
Finance income		-	(13)
<b>Operating loss</b>	<b>34</b>	<b>(11,045)</b>	<b>(3,686)</b>
Share-based payments		76	(60)
Loss on disposal of plant and equipment		50	27
Depreciation		1,045	1,083
Amortisation of intangibles		2,436	2,419
Movement in inventories		2,375	1,315
Movement in trade and other receivables		2,930	6,950
Movement in trade and other payables		(1,094)	(6,048)
Movement in provision		(222)	(272)
Change in deferred income including government grants		(169)	(81)
Tax paid		(62)	(32)
<b>Net cash (used in)/from operating activities</b>	<b>34</b>	<b>(3,680)</b>	<b>1,615</b>
<b>Cash flows from investing activities</b>			
Interest received		-	13
Acquisition of intangible assets		(160)	-
Acquisition of plant and equipment		(201)	(1,058)
Proceeds on sale of assets		219	32
<b>Net cash used in investing activities</b>	<b>34</b>	<b>(142)</b>	<b>(1,013)</b>
<b>Cash flows from financing activities</b>			
Proceeds from exercise of share options		-	50
Proceeds from new shares issued (Net of issue costs)		2,026	-
Movement in interest bearing borrowings		320	(496)
<b>Net cash from/(used in) financing activities</b>	<b>34</b>	<b>2,346</b>	<b>(446)</b>
<b>Movement in cash and cash equivalents</b>		<b>(1,476)</b>	<b>156</b>
Currency exchange movement		32	-
Opening cash and cash equivalents		2,531	2,375
<b>Closing cash and cash equivalents</b>	<b>35</b>	<b>1,087</b>	<b>2,531</b>

# Company balance sheet

at 31 May 2015

		Company	
	Note	2015 £000	2014 £000
<b>Non-current assets</b>			
Investments in subsidiaries	14	10,564	10,569
Intangible assets	15	142	-
Property, plant and equipment	16	39	-
		<b>10,745</b>	10,569
<b>Current assets</b>			
Trade and other receivables	18	13,237	12,840
Cash and cash equivalents		225	277
		<b>13,462</b>	13,117
<b>Total assets</b>		<b>24,207</b>	23,686
<b>Current liabilities</b>			
Trade and other payables	20	5,561	6,300
Provision	21	10	225
<b>Total liabilities</b>		<b>5,571</b>	6,525
<b>Net assets</b>		<b>18,636</b>	17,161
<b>Equity</b>			
Share capital	24	10,688	9,716
Share premium	25	6,199	5,145
Retained earnings	28	1,749	2,300
<b>Total equity</b>		<b>18,636</b>	17,161

Company number 2891064

Approved by the Board on 28th September 2015 and signed on its behalf by

**Rob Smith**

Chief Executive Officer

28 September 2015



# Company cash flow statement

for the year ended 31 May 2015

	Company	
	2015 £000	2014 £000
<b>Cash flows from operating activities</b>		
<b>Loss for the period</b>	(538)	(1,038)
Finance costs	-	200
Finance income	(207)	(13)
<b>Operating loss</b>	(745)	(851)
Depreciation	6	-
Amortisation of intangibles	18	-
Share-based payments	(13)	(132)
Movement in trade and other receivables	(188)	(2,248)
Movement in trade and other payables	(736)	3,107
Movement in provision	(215)	225
<b>Net cash (used in)/from operating activities</b>	(1,873)	101
<b>Cash flows from investing activities</b>		
Interest received	-	13
Acquisition of plant and equipment	(45)	-
Acquisition of intangible assets	(160)	-
Set up costs in new subsidiary	-	(5)
<b>Net cash (used in)/from investing activities</b>	(205)	8
<b>Cash flows from financing activities</b>		
New shares issued (net of issue costs)	2,026	-
Proceeds from exercise of share options	-	50
<b>Net cash from financing activities</b>	2,026	50
<b>(Decrease)/increase in cash and cash equivalents</b>	(52)	159
Opening cash and cash equivalents	277	118
<b>Closing cash and cash equivalents</b>	225	277

# Notes to the financial statements

for the year ended 31 May 2015

## 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).

In accordance with the corporate governance requirements and the statement of directors' responsibilities, and as disclosed in the directors report, the directors have undertaken a review of forecasts and the group's cash requirements for the next two financial years ending 31 May 2017, in order to consider whether it is appropriate that the group continues to adopt the going concern assumption.

During the year the group incurred an operating loss of £11.0m. The group has implemented a number of measures in order to minimise future cash outflows and also announced on 27 August 2015 that it was proposing to raise £4.5m through a share placing along with a move from the Main to AIM market of the London Stock Exchange. This placing has been fully subscribed, in the majority part by existing shareholders, and is conditional on shareholder approval. Given the previous successful placing in November 2014 and that the placing is being taken up by existing shareholders the directors have no reason to believe that shareholder approval will not be obtained.

In addition, subsequent to the year end the group has entered into a new sales invoice financing agreement in the US enabling the group to borrow up to \$3.5m against 80% of the US debtor book, in addition to the current facility in the UK that enables the company to borrow up to £2.0m against 65% of the UK debtor book.

The directors believe that the proceeds from the placing, together with the additional facilities, provide sufficient working capital and therefore the directors confirm that they have a reasonable expectation that the group has adequate financial resources to continue to trade for the foreseeable future and have therefore prepared the accounts on a going concern basis.

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. Intragroup 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.

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.

### 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.

# Notes to the financial statements

for the year ended 31 May 2015

## 1 Accounting policies (continued)

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.

### 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.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. The majority of sales are made at the point the product leaves the Filtronic production facility but there are sales where the revenue is recognised once the product is delivered to the customer. In addition some customers require Filtronic to store items on their behalf, in this instance, revenue is recognised when the goods have been invoiced and when the products have been moved to a stock location for customer property.

### Research and development

All research costs are expensed as incurred.

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

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

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

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

### Operating leases

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

### Share-based payments

The group operates share option and share award schemes, under which share options and share awards are 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. At each reporting period these vesting expectations were revised as appropriate.

A charge was made to equity equal to the share-based payment credit 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.

# Notes to the financial statements

for the year ended 31 May 2015

## 1 Accounting policies (continued)

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.

### 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 an 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.

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.

## 1 Accounting policies (continued)

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.

### 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.

### Current tax

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

### 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.



# Notes to the financial statements

## 1 Accounting policies (continued)

### 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.

### Dilapidations and onerous leases

A provision for dilapidations and onerous leases is recognised in the balance sheet on a lease by lease basis is based on the group's best estimates of the required cost to settle the obligations.

### 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 approved by shareholders.

### Accounting developments

The group and company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The accounting policies have been applied consistently to all periods presented in the consolidated financial statements, unless otherwise stated.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting period beginning on or after 1 June 2015. The following new standards and amendments to standards are mandatory and have been adopted for the first time for the financial year beginning 1 June 2015:

**IFRS 10** - "Consolidated Financial Statements" and **IAS 27** - "Separate Financial Statements". These are part of a new suite of standards on consolidation and related standards, replacing the existing accounting for subsidiaries and making limited amendments in relation to associates.

**IFRS 12** - "Disclosure of Interest in Other Entities". This contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities.

Amendments to **IAS 32** - "Offsetting Financial Assets and Financial Liabilities".

Amendments to **IAS 36** - "Recoverable Amounts Disclosures for Non-Financial Assets".

**IFRIC 21** - "Leases".

These standards have not had a material impact on the Consolidated Financial Statements.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting period beginning on or after 1 April 2015. The group has elected not to adopt early these standards which are described below:

Annual Improvements to IFRSs 2010 - 2012 Cycle

Annual Improvements to IFRSs 2011 - 2013 Cycle

The above are not expected to have a material impact on the group's reported results.

**IFRS 15** - "Revenue From Contracts With Customers" has been published which will be mandatory for the group's accounting period beginning on or after 1 April 2018. The group is still considering the impact of this standard however it is anticipated the impact on the financial position and performance of the group will not be material. In addition, the IASB has indicated that it will issue a new standard on accounting for leases. Under the proposals, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The IASB also plans to issue a new standard on insurance contracts. The group will consider the financial impacts of this new standard when finalised. There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

## 1 Accounting policies (continued)

### 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.

## 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.

### 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.

### Debtors

In line with industry practice Filtronic extends credit terms to its customers. Due to the concentration of debtors the effect of any one debtor defaulting would be material to the group's financial statements. Estimates and judgements are made when valuing the debtor as to its recoverability. A bad debt provision is created when it is unlikely the debt will be recovered.

### 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

In line with the requirements of IFRS, the group's policy is to capitalise development expenditure as intangible assets when all the following criteria are met:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the asset and use or sell it;
- the ability to use or sell the asset;
- the asset will generate probable future economic benefits and demonstrate the existence of a market or the usefulness of the asset if it is to be used internally;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell it; and
- the ability to measure reliably the expenditure attributable to the intangible asset.

This process is 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.

# Notes to the financial statements

for the year ended 31 May 2015

## 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 four customers representing individually over 10 per cent each and in aggregate 66 per cent of revenue. This is split as follows:

- Customer A (Wireless) — 19%
- Customer B (Wireless and Broadband) — 17%
- Customer C (Wireless) — 16%
- Customer D (Broadband) — 15%

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 intersegment 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		Total	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Revenue	7,241	9,736	10,283	23,164	-	-	17,524	32,900
Finance income	-	-	-	-	-	13	-	13
Depreciation	482	605	557	478	6	-	1,045	1,083
Reportable segment loss before amortisation of intangibles and exceptional items	(1,648)	(2,285)	(5,697)	2,619	(791)	(776)	(8,136)	(442)
Reportable segment loss before amortisation of intangibles and income tax	(1,904)	(2,749)	(5,877)	2,563	(846)	(1,068)	(8,627)	(1,254)
Reportable segment assets	4,883	10,861	7,251	9,005	11,959	13,032	24,093	32,898
Capital expenditure	5	326	151	732	45	-	201	1,058
Reportable segment liabilities	9,877	14,422	7,381	3,340	657	788	17,915	18,550

## 3 Segmental analysis (continued)

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

	2015 £000	2014 £000
<b>Depreciation and amortisation</b>		
Reportable segment totals	1,045	1,083
Adjustments/amortisation of intangibles	2,436	2,419
Consolidated depreciation and amortisation	3,481	3,502
<b>Loss before taxation</b>		
Total loss for reportable segments	(8,627)	(1,254)
Group/unallocated	(2,418)	(2,419)
Consolidated loss before taxation	(11,045)	(3,673)
<b>Assets</b>		
Total assets for reportable segments	24,093	32,898
Intercompany	(10,832)	(10,041)
Group/unallocated	2,551	2,551
Consolidated total assets	15,812	25,408
<b>Liabilities</b>		
Total liabilities for reportable segments	17,915	18,550
Intercompany	(10,832)	(10,041)
Consolidated total liabilities	7,083	8,509

**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.

	2015 £000	2014 £000
<b>Revenue by destination</b>		
United Kingdom	1,772	10,429
Europe	4,412	4,351
Americas	7,727	15,081
Rest of the world	3,613	3,039
	17,524	32,900
<b>Split of non-current assets by location</b>		
United Kingdom	3,772	5,963
Europe	131	173
Americas	1,095	2,635
Rest of the world	175	232
	5,173	9,003

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

# Notes to the financial statements

for the year ended 31 May 2015

## 4 Operating loss

	2015 £000	2014 £000
<b>Revenue</b>	<b>17,524</b>	32,900
Other operating income	(69)	(21)
Raw materials and consumables	<b>11,478</b>	18,838
Wages and salaries	<b>7,345</b>	7,784
Social security costs	<b>830</b>	867
Pension costs	<b>453</b>	456
Share-based payments	<b>76</b>	(60)
Exceptional redundancy and resignation costs	<b>370</b>	-
Staff costs	<b>9,074</b>	9,047
Amortisation of intangibles	<b>2,436</b>	2,419
Depreciation	<b>1,045</b>	1,083
Depreciation and amortisation	<b>3,481</b>	3,502
Other operating charges	<b>4,605</b>	5,220
<b>Operating costs</b>	<b>28,569</b>	36,586
<b>Operating loss</b>	<b>(11,045)</b>	(3,686)

The operating loss is stated after the exceptional items in note 5. £370,000 of exceptional items have been charged through wages and salaries with the remainder charged through other operating charges.

## 5 Exceptional items

Operating loss is stated after charging exceptional items as follows:

	2015 £000	2014 £000
Director resignation	<b>131</b>	-
Redundancy costs	<b>244</b>	-
Closure of Wireless California operation	<b>67</b>	-
Filtronic Broadband relocation	<b>98</b>	463
Swedish entity set up costs	-	52
Dilapidation of premises of discontinued operations	<b>(75)</b>	310
Electrical damage	<b>26</b>	-
	<b>491</b>	825

Alan Needle, the previous Chief Executive Officer, left the company in the year. The costs relating to his departure were £131,000 including national insurance contributions and other costs.

The company undertook a redundancy programme in the final quarter of the financial year in both the Broadband and Wireless business as part of cost saving measures to remove a further £2m of overhead costs. The cost of implementing these redundancies was £244,000.

Additionally, the company closed the operations in California, which formed part of Filtronic Wireless Inc, as part of the same cost saving programme. A payment of \$215,000 was made by a third party for the assets in California but not enough to cover the full cost of the closure

The Broadband business relocated to the North East Technology Park, Sedgefield, in the previous financial year, to reduce operating costs. The final set of costs related to this move have now been recognised.

A charge was made in the previous financial year for dilapidations relating to the termination of two leases related to the disposal of the group's former UK defence company. The costs were £75,000 lower than originally estimated.

An electrical fault at the Broadband facility damaged equipment in one of the engineering labs. The estimated cost of repair is £26,000. A claim for compensation is currently in progress.



## 6 Operating items

	2015 £000	2014 £000
Operating loss is stated after charging:		
Research and development costs	6,466	6,339
Operating lease rentals	478	243
Foreign exchange (gain)/loss	(108)	168

## 7 Auditor's remuneration

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

	2015 £000	2014 £000
Company auditor:		
Audit of the group and company financial statements	11	10
Company auditor and their associates:		
Audit of subsidiaries' financial statements pursuant to legislation	47	46
Other services pursuant to such legislation	5	7
Taxation services	11	24
Other services	2	13
	76	89

## 8 Employees

The average number of employees comprised:

	2015 Number	2014 Number
Manufacturing	68	85
Research and development	80	80
Sales	5	3
Administration	17	18
	170	186

## 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 38 to 42. The compensation of the directors was:

	2015 £000	2014 £000
Salary or fees	501	500
Loss of office	111	111
Bonuses	50	-
Benefits	18	18
Total remuneration excluding pension contributions and share-based payments	680	629
Pension contributions	12	24
Share-based payments	-	1
	692	654

The directors are related parties.

# Notes to the financial statements

for the year ended 31 May 2015

## 10 Related party transaction

### Identity of related parties

The group has a related party relationship with its subsidiaries and with its directors.

### Transactions with subsidiaries

The main transactions between the company and its subsidiaries are management administration recharges to its subsidiaries of £432,000 (2014: £432,000) and a royalty charge of 1 per cent of Wireless sales to the Wireless business of £102,000 (2014: £230,000). The royalty charge is eliminated on consolidation.

The company also acts as a central service to distribute money around the group to ensure subsidiaries are adequately funded to meet obligations and to invest funds from subsidiaries where surplus cash exists. The total figures for these transactions along with the management and royalty charge can be seen in notes 18 and 20 through the movement in the company's intercompany receivables and payables.

### Transactions with key management personnel

Key management personnel are considered to be the executive directors of the company. The remuneration given to these individuals is disclosed in the directors' remuneration report on pages 38 to 42.

## 11 Finance income

	2015 £000	2014 £000
Interest income	-	13
	-	13

## 12 Taxation

	2015 £000	2014 £000
Recognised in the income statement		
<b>Current tax credit</b>		
Overseas taxation in the period	136	43
Adjustment in respect of prior year — R&D tax credit	(673)	(65)
Total current tax credit	(537)	(22)
<b>Deferred tax credit</b>		
Release of deferred tax liability	(485)	(627)
(Origination) and reversal of temporary differences	485	(209)
Total deferred tax credit	-	(836)
Income tax credit	(537)	(858)

## 12 Taxation (continued)

The reconciliation of the effective tax rate is as follows:

	<b>2015</b>		<b>2014</b>	
	<b>£000</b>		<b>£000</b>	
Loss before taxation	<b>(11,045)</b>		<b>(3,673)</b>	
	<b>2015</b>		<b>2014</b>	
	<b>£000</b>		<b>£000</b>	
Loss before taxation multiplied by standard rate of corporation tax in the UK	<b>(21%)</b>	<b>(2,300)</b>	<b>(23%)</b>	<b>(833)</b>
Disallowable items	<b>2%</b>	<b>245</b>	<b>4%</b>	<b>164</b>
Income not taxable	<b>1%</b>	<b>167</b>	<b>(6%)</b>	<b>(205)</b>
Deferred tax not recognised	<b>16%</b>	<b>1,722</b>	<b>11%</b>	<b>405</b>
Impact of tax rate change on deferred tax	<b>1%</b>	<b>19</b>	<b>(1%)</b>	<b>(32)</b>
Adjustment in respect of prior years	<b>(6%)</b>	<b>(673)</b>	<b>(2%)</b>	<b>(65)</b>
R&D tax credit	<b>-</b>	<b>-</b>	<b>(8%)</b>	<b>(276)</b>
FX rate change of deferred tax	<b>-</b>	<b>-</b>	<b>1%</b>	<b>25</b>
Foreign tax not at UK rate	<b>(2%)</b>	<b>(203)</b>	<b>(1%)</b>	<b>(41)</b>
De-recognition of deferred tax asset	<b>4%</b>	<b>485</b>	<b>-</b>	<b>-</b>
Taxation	<b>(5%)</b>	<b>(537)</b>	<b>(23%)</b>	<b>(858)</b>

## 13 Loss per share

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Loss for the period	<b>(11,045)</b>	<b>(2,815)</b>
	<b>000</b>	<b>000</b>
Basic weighted average number of shares	<b>103,417</b>	<b>97,078</b>
Basic and diluted loss per share	<b>(10.68p)</b>	<b>(2.90p)</b>

# Notes to the financial statements

for the year ended 31 May 2015

## 14 Investments in subsidiaries

	Company investments in subsidiaries £000
Cost	
At 1 June 2013	21,110
<b>At 31 May 2014 and 31 May 2015</b>	<b>21,110</b>
Impairment	
<b>At 1 June 2013, 31 May 2014 and 31 May 2015</b>	<b>10,546</b>
Carrying amount at 1 June 2013	10,564
<b>Carrying amount at 1 June 2014 and 31 May 2015</b>	<b>10,564</b>

The company's subsidiaries are related parties.

The subsidiaries at 31 May 2015, 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
Filtronic Comtek (UK) Limited	UK	12.2787p ordinary shares	100%	Dormant Company
<b>Owned by Filtronic Holdings UK Limited:</b>				
Filtronic Wireless AB	Sweden	SEK1 ordinary shares	100%	Design and manufacture of antenna products for telecommunication systems
<b>Owned by Isotek (Holdings) Limited:</b>				
Filtronic Wireless Limited	UK	1p ordinary shares	100%	Design and manufacture of filters and related products for telecommunication systems
Filtronic Wireless Inc	USA	\$1 ordinary shares	100%	Design and manufacture of filters and related products for telecommunication systems
Isotek Limited	UK	1p ordinary shares	100%	Dormant company
<b>Owned by Filtronic Wireless Limited:</b>				
Isotek Hong Kong Holdings Limited	Hong Kong	HK\$1 ordinary shares	100%	Holding company
<b>Owned by Isotek Hong Kong Holdings Limited:</b>				
Isotek Suzhou Limited	China	USD \$350,000 paid in share capital	100%	Design and manufacture of filters and related products for telecommunication systems
Filtronic Wireless Suzhou	China	USD \$162,000 paid in share capital	100%	Design and manufacture of filters and related products for telecommunication systems

## 15 Goodwill and other intangibles

	Goodwill £000	Other intangibles (core technology) £000	Licence Agreement £000	Total £000
<b>Cost</b>				
At 1 June 2013 and 31 May 2014	3,235	10,884	-	14,119
Additions	-	-	160	160
At 31 May 2015	3,235	10,884	160	14,279
<b>Amortisation</b>				
At 1 June 2013	-	6,047	-	6,047
Provided in year	-	2,419	-	2,419
At 31 May 2014	-	8,466	-	8,466
Provided in year	-	2,418	18	2,436
At 31 May 2015	-	10,884	18	10,902
Carrying amount at 1 June 2013	3,235	4,837	-	8,072
Carrying amount at 31 May 2014	3,235	2,418	-	5,653
Carrying amount at 31 May 2015	3,235	-	142	3,377

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

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 post tax cash flows have been prepared to 31 May 2017 based on past experience, actual operating results, known future cash flows and estimates of future cash flows;
- cash flows for a further 3 years have been extrapolated from the year to 31 May 2017. A revenue growth factor of 5 per cent was applied to the projections together with cost inflation of 3 per cent. A perpetuity factor has been applied based on the year to 31 May 2020;
- post tax discount rate of 12% (2014:12%) 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.

The Licence agreement relates to a Remote Electrical Downtilt ("RET") license procured during the year to enable the use of RETs in the antenna products.



# Notes to the financial statements

for the year ended 31 May 2015

## 16 Property, plant and equipment

	Group plant and equipment £000	Company plant and equipment £000
<b>Cost</b>		
At 1 June 2013	8,915	-
Additions	1,058	-
Disposals	(146)	-
Currency translation movement	(89)	-
At 31 May 2014	9,738	-
Additions	201	45
Disposals	(1,719)	-
Currency translation movement	104	-
<b>At 31 May 2015</b>	<b>8,324</b>	<b>45</b>
<b>Depreciation and impairment</b>		
At 1 June 2013	5,910	-
Depreciation	1,083	-
Disposals	(89)	-
Currency translation movement	(31)	-
At 31 May 2014	6,873	-
Depreciation	1,045	6
Disposals	(1,452)	-
Currency translation movement	60	-
<b>At 31 May 2015</b>	<b>6,528</b>	<b>6</b>
Carrying amount at 1 June 2013	3,005	-
Carrying amount at 31 May 2014	2,865	-
<b>Carrying amount at 31 May 2015</b>	<b>1,796</b>	<b>39</b>

## 17 Inventories

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Raw materials	2,872	1,968	-	-
Work in progress	350	1,445	-	-
Finished goods	412	520	-	-
	3,634	3,933	-	-
Inventories are stated net of provision	1,646	1,596	-	-

The amount charged to the income statement in the year in respect of write downs of inventories is £1,190,000 (2014: £200,000). The amount credited to the income statement in the year in respect of reversals of write downs of inventories is £200,000 (2014: £146,000), principally resulting from the subsequent sale of inventory previously provided for. These amounts are classified within cost of sales in the consolidated income statement.

## 18 Trade and other receivables

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Trade receivables	6,456	8,908	-	-
Group receivables	-	-	13,200	12,818
Other receivables and prepayments	1,450	1,033	37	22
	<b>7,906</b>	<b>9,941</b>	<b>13,237</b>	<b>12,840</b>

Trade receivables are stated net of provision. There are no provisions for bad debt.

## 19 Deferred tax

	Group	
	2015 £000	2014 £000
Deferred tax liability		
Opening balance	485	1,112
Release to income statement	(485)	(627)
Closing balance	-	485

The deferred tax liability related to the intangible assets arising upon acquisition of the Wireless business. The liability at acquisition was £2,938,000 and at 31 May 2015 was £nil. This has now been fully released to the income statement.

	Group	
	2015 £000	2014 £000
Deferred tax assets		
Opening balance	485	302
Tax losses derecognised	(485)	-
Tax losses recognised	-	192
Effect of change in UK corporation tax rate	-	(9)
Closing balance	-	485

The deferred tax assets brought forward from the Wireless business have been derecognised as the directors consider that the underlying temporary differences will not reverse in the next year.

Deferred tax assets which have not been recognised:

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Depreciation in advance of capital allowances	1,806	1,880	455	435
Tax losses carried forward	12,838	11,204	10,515	10,880
Share options deferment	-	80	-	-
	<b>14,644</b>	<b>13,164</b>	<b>10,970</b>	<b>11,315</b>

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. There is no expiry date for these unrecognised assets.

A reduction in the UK corporation tax rate from 21 per cent to 20 per cent (effective from 1 April 2015) was substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

This is not expected to have a material impact on the group's tax position.

# Notes to the financial statements

for the year ended 31 May 2015

## 20 Trade and other payables

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Trade payables	5,381	5,922	19	86
Group payables	-	-	4,914	5,738
Other payables and accruals	1,196	1,525	628	476
	6,577	7,447	5,561	6,300

## 21 Provisions

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Warranty provision				
Opening balance	108	605	-	-
Used during the year	(12)	(41)	-	-
Released unused during the year	(35)	(487)	-	-
Charge for the year	40	31	-	-
Closing balance	101	108	-	-

The provision for warranty relates to the units sold during the last two financial years. The provision is based on estimates made from historical warranty data.

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Dilapidation provision				
Opening balance	225	-	225	-
Used during the year	(140)	(85)	(140)	(85)
Released unused during the year	(75)	-	(75)	-
Charge for the year	-	310	-	310
Closing balance	10	225	10	225

The provision for dilapidation relates to a liability for the termination of two leases retained following the disposal of the group's UK defence business in 2009.

## 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		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Defined contribution schemes	453	456	20	30

## 24 Share capital

	Group and Company Ordinary shares of 10p each	
	Number	£000
At 1 June 2013	96,997,993	9,700
Shares issued in year	162,993	16
At 1 June 2014	97,160,986	9,716
Shares issued in year	9,716,000	972
<b>At 31 May 2015</b>	<b>106,876,986</b>	<b>10,688</b>

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 9,716,000 shares through a share placing on 3 December 2014 at a nominal value of 10p per share.

## 25 Share premium

	Group and Company
At 1 June 2013	5,111
Premium on share issue	34
At 1 June 2014	5,145
Premium on share issue	1,054
<b>At 31 May 2015</b>	<b>6,199</b>

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 shares issued as part of the share placing were issued at a premium of 12p per share reflecting the market value of the shares at the date of acquisition net of issue costs of £112,000.

## 26 Translation reserve

	Group £000
At 1 June 2013	38
Currency translation movement arising on consolidation	(474)
At 1 June 2014	(436)
Currency translation movement arising on consolidation	236
<b>At 31 May 2015</b>	<b>(200)</b>

## 27 Dividends

The directors are not proposing to pay a dividend for the year ended 31 May 2015 (2014: nil).

## 28 Retained earnings

	Group £000	Company £000
At 1 June 2013	5,349	3,470
Loss for the period	(2,815)	(1,038)
Share-based payments	(60)	(132)
At 31 May 2014	2,474	2,300
Loss for the period	(10,508)	(538)
Share-based payments	76	(13)
<b>At 31 May 2015</b>	<b>(7,958)</b>	<b>(1,749)</b>

# Notes to the financial statements

for the year ended 31 May 2015

## 29 Share options

There are five sharesave plans that have been offered to employees. The first two schemes offered to employees have now closed. Under these plans employees who join the plan save up to £500 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 2

	<b>Weighted average exercise price 2015</b>	<b>Number of options 2015</b>	Weighted average exercise price 2014	Number of options 2014
Outstanding at the beginning of the period	<b>34.2p</b>	-	34.2p	98,520
Exercised during the period	<b>34.2p</b>	-	34.2p	(95,888)
Cancelled during the period	<b>34.2p</b>	-	34.2p	(2,632)
Outstanding at the end of the period	<b>34.2p</b>	-	34.2p	-
Exercisable at the end of the period	<b>34.2p</b>	-	34.2p	-

The second sharesave plan was offered to employees in November 2010 and has now closed.

### Sharesave Plan - Scheme 3

	<b>Weighted average exercise price 2015</b>	<b>Number of options 2015</b>	Weighted average exercise price 2014	Number of options 2014
Outstanding at the beginning of the period	<b>22.6p</b>	<b>883,258</b>	22.6p	989,505
Exercised during the period	<b>22.6p</b>	-	22.6p	(49,183)
Cancelled during the period	<b>22.6p</b>	<b>(119,945)</b>	22.6p	(57,064)
Outstanding at the end of the period	<b>22.6p</b>	<b>763,313</b>	22.6p	883,258
Exercisable at the end of the period	<b>22.6p</b>	<b>763,313</b>	22.6p	30,106

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

The options outstanding at 31 May 2015 for Scheme 3 have a weighted average remaining contractual life of 0.5 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**

	<b>Weighted average exercise price 2015</b>	<b>Number of options 2015</b>	Weighted average exercise price 2014	Number of options 2014
Outstanding at the beginning of the period	56.4p	147,305	56.4p	278,848
Exercised during the period	56.4p	-	56.4p	(1,730)
Cancelled during the period	56.4p	(82,653)	56.4p	(129,813)
Outstanding at the end of the period	56.4p	64,652	56.4p	147,305
Exercisable at the end of the period	56.4p	7,786	56.4p	-

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

The options outstanding at 31 May 2015 for Scheme 4 have a weighted average remaining contractual life of 1.5 years. The share options granted during the year to May 2013 have an exercise price of 56.4p and have an exercise period from 1 May to 31 October 2016.

**Sharesave Plan - Scheme 5**

	<b>Weighted average exercise price 2015</b>	<b>Number of options 2015</b>
Outstanding at the beginning of the period	31.0p	-
Granted during the period	31.0p	1,088,801
Cancelled during the period	31.0p	(292,511)
Outstanding at the end of the period	31.0p	796,290
Exercisable at the end of the period	31.0p	75,482

The fifth sharesave scheme was offered to employees in June 2014.

The options outstanding at 31 May 2015 for Scheme 5 have a weighted average remaining contractual life of 2.5 years. The share options granted during the year to May 2015 have an exercise price of 31p and have an exercise period from 1 July to 31 December 2017.

**Management incentive plans**

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 between 18p and 66p. 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. The following options under this scheme were outstanding at 31 May 2015.

<b>Ordinary Shares of 10p</b>	<b>Date Granted</b>	<b>Earliest Date exercisable</b>	<b>Latest Date exercisable</b>	<b>Exercise price</b>
212,351	01/08/2011	01/08/2014	01/08/2021	23.5p
132,721	01/11/2011	29/10/2014	29/10/2021	18.1p
200,000	18/10/2013	16/10/2016	16/10/2023	65.8p
175,000	14/08/2014	11/08/2017	11/08/2024	25.8p
25,000	27/10/2014	24/10/2017	24/10/2024	21.2p
<b>745,072</b>				

The weighted average price of options of the outstanding options under this scheme at 31 May 2015 was 34.35p

# Notes to the financial statements

for the year ended 31 May 2015

	Number of share options 2015	Number of share options 2014
Outstanding at the beginning of the period	406,205	428,677
Granted during the period	450,000	-
Exercised during the period	-	(16,192)
Cancelled during the period	111,133	(6,280)
Outstanding at the end of the period	745,072	406,205
Exercisable at the end of the period	345,072	-

## 30 Share awards

	Number of share awards 2015 £000	2014 £000
<b>Performance share plan</b>		
Outstanding at the beginning of the period	375,648	157,943
Granted during the year	-	512,634
Cancelled during the year	(375,648)	(294,929)
Outstanding at the end of the period	-	375,648

The conditions attached to the share awards were not met. As a result the share awards have been cancelled. No new share awards were granted in the year.

## 31 Share-based payments

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Share options expense	98	76	9	4
Share awards expense	(22)	20	(22)	20
Non-vesting LTIP share award	-	(156)	-	(156)
	76	(60)	(13)	(132)
Exercise of share awards	-	-	-	-

The share options expense is 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 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	
	2015 £000	2014 £000	2015 £000	2014 £000
Number of share options granted	-	512,634	-	512,634
Weighted average share price	31.0p	63.0p	31.0p	63.0p
Expected volatility	60%	60%	60%	60%
Expected life	3.0 years	3.0 years	3.0 years	3.0 years
Risk free interest rate	3%	3%	3%	3%
Weighted average fair value	10p	24p	10p	24p

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	
	2015 £000	2014 £000	2015 £000	2014 £000
Less than one year	378	425	-	2
Between one and five years	931	1,360	-	-
More than five years	230	408	-	-
	<b>1,539</b>	<b>2,193</b>	<b>-</b>	<b>-</b>

The group leases a number of facilities, offices and vehicles under non-cancellable operating leases. The lease terms are for periods of one to ten years.

### 33 Capital expenditure commitments

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Capital expenditure contracted for at the balance sheet date but not provided in the financial statements	1	-	-	-

### 34 Note to the consolidated cash flow statement

	Group	
	2015 £000	2014 £000
Operating loss	(11,045)	(3,686)
Net cash (used in)/from operating activities	(3,680)	1,615
Net cash used in investing activities	(142)	(1,013)
Net cash from/(used in) financing activities	2,346	(446)

### 35 Analysis of net funds

	1 June 2014 £000	Cash flow £000	Other changes £000	31 May 2015 £000
Cash and cash equivalents	2,531	(1,476)	32	<b>1,087</b>
Interest bearing borrowings	-	(320)	-	<b>(320)</b>
	2,531	(1,796)	32	<b>767</b>

#### Reconciliation of cash flow to movement in net funds

	2015 £000	2014 £000
Movement in cash and cash equivalents	(1,476)	156
Cash flow from (increase)/decrease in debt financing	(320)	496
Effect of exchange rate fluctuations	32	-
Movement in net funds	(1,764)	652
Net funds at 1 June 2014	2,531	1,879
Net funds at 31 May 2015	<b>767</b>	<b>2,531</b>

The £320,000 is secured against the UK debtors in Filtronic Broadband Limited and Filtronic Wireless Limited as per the Barclays sales financing agreement.

# Notes to the financial statements

for the year ended 31 May 2015

## 36 Financial instruments

### Fair value

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

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

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

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

### Liquidity risk

The group and company hold net funds of £767,000 and £225,000 respectively and have access to a £2m sales invoicing facility with Barclays Bank. 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 sales invoicing facility with Barclays allows the company to borrow 65% of the UK entities debtors denominated in US dollars and sterling up to a value of £2m.

Note 37 references the proposed placing of £4.5m which is dependent on shareholder approval at the general meeting on 15 October 2015. Upon shareholder approval the liquidity risk of the group is very low, but should the shareholders vote against the proposed placing, the liquidity risk would be very high.

On 11 September 2015, the US subsidiary, Filtronic Wireless Inc, entered into a sales invoice finance facility with Faunus Group International Inc (FGI Finance). This facility allows the group to borrow 80% of the US entities debtors up to \$3.5m.

### 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	
	2015 £000	2014 £000	2015 £000	2014 £000
Cash and cash equivalents	1,087	2,531	225	277
Trade and other receivables	7,906	9,941	4,437	12,840
	8,993	12,472	4,662	13,117

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

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Barclays Bank	538	2,384	225	277
China Citic Bank	41	92	-	-
Bank of America	496	1	-	-
Bank of Delmarva	11	29	-	-
Industrial and Commercial Bank of China	-	16	-	-
SEB	1	8	-	-
ABC Bank China	-	1	-	-
	1,087	2,531	225	277

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.

### 36 Financial instruments (continued)

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

	Group	
	2015 £000	2014 £000
Customer one	1,537	2,402
Customer two	1,424	1,482
Customer three	698	829
Other customers	2,797	4,195
	<b>6,456</b>	<b>8,908</b>

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

	Group	
	2015 £000	2014 £000
Not past due	5,530	7,914
Past due less than three months	633	577
Past due more than three months	293	417
	<b>6,456</b>	<b>8,908</b>

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

	Group	
	2015 £000	2014 £000
Past due more than three months	-	-

#### Interest rate risk

Cash is generally held on short term bank deposits which earns interest at variable money market deposit rates. At 31 May 2015 there was £nil held on short term deposit. The remaining cash in the group is held in very low interest rate accounts. 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:

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

### 36 Financial instruments (continued)

#### Foreign currency risk

The group's and company's reporting currency is sterling, which is also the company's functional currency. The functional currencies of the subsidiaries are sterling, US dollar, Chinese Yuan and Swedish Krona.

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

The group has generated a surplus of US dollars during the year due to an increasing number of projects being supplied in US dollars. Whilst the group's major supplier invoices in US dollars, giving some degree of a natural hedge, it is not adequate to offset the exposure on currency risk. Therefore, the group has used forward foreign contracts to reduce the currency risk from surplus 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 weaken significantly this could materially reduce the group's revenue and operating profit.

Cash is mainly held in sterling and US dollars.

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

	Group							
	2015				2014			
	SEK £000	EUR £000	RMB £000	USD £000	SEK £000	EUR £000	RMB £000	USD £000
Cash and cash equivalents	1	80	41	647	13	303	110	1,750
Interest bearing borrowings	-	-	-	(137)	-	-	-	-
Trade receivables	-	15	630	5,286	-	246	211	7,384
Trade payables	-	(367)	(659)	(3,727)	(53)	(186)	(198)	(2,247)
Net exposure	1	(272)	12	2,069	40	363	123	6,887

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 2015 then the group operating profit from continuing operations would have been £4000 higher/lower.

#### 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 £2m which is not currently being utilised. At 31 May 2015 the group had net funds of £767,000 and the company had a cash balance of £225,000. The group and company have sufficient cash to cover working capital requirements and capital expenditure plans in the event the proposed placing of £4.5m is successful.

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 Subsequent events

On 27 August 2015 the Group announced its intention to raise £4.5m through the placing of 90,000,000 new ordinary shares. In conjunction with the Placing, it is proposed to cancel trading of the Company's existing shares from the Main Market on the London Stock Exchange and apply to admit existing and new shares to the AIM market of the London Stock Exchange. It is also proposed to reorganise the Company's share capital and to amend the articles of association.

To complete these proposals the Company will require Shareholder approval at a general meeting to be held 15 October 2015. There will also be an opportunity for all existing shareholders to purchase new ordinary shares through an open offer of up to 20,000,000 shares at a discounted price of 5p per share which could raise up to another £1m.

On 14 September 2015 it was announced that Filtronic Wireless Inc, a wholly owned subsidiary of Filtronic plc, had entered into a sales invoice finance facility with Faunus Group International Inc (FGI Finance). Under the terms of the facility the Group may draw down up to 80% of the debtors and a maximum of \$3.5m.

### 38 Forward-looking statements

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

# Shareholder information

## Directors

(All of Filtronic House, 3 Airport West,  
Yeadon, West Yorkshire, LS19 7ZA, UK)

Howard Ford — Non-Executive  
Chairman

Rob Smith — Chief Executive Officer

Graham Meek — Senior Non-Executive  
Director

Reg Gott — Non-executive Director

Michael Roller — Non-executive Director

## Company secretary

Maura Moynihan

## Company number

2891064

## Registered office

Filtronic plc  
Filtronic House  
3 Airport West  
Lancaster Way  
Yeadon, Leeds  
West Yorkshire  
LS19 7ZA  
Tel: 0113 220 0000

## Registrars

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham, Kent  
BR3 4TU

Tel: 0870 162 3100. (UK calls cost 10p  
per minute plus network extras). From  
overseas: +44 20 8639 3399. Lines are  
open 9.00am to 5.30pm, Monday to  
Friday, excluding public holidays

## Auditor

KPMG LLP  
Chartered Accountants  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

## Bankers

Barclays Bank PLC  
10 Market Street  
Bradford  
BD1 1NR

## Financial public relations

Walbrook PR Limited  
4 Lombard Street  
London  
EC3V 9HD  
Tel: 020 7933 8780

## Annual General Meeting

The Company's Annual General  
Meeting will be held at 11am on Friday,  
27 November 2015 at the offices of  
KPMG LLP, Sovereign Square, 1 Sovereign  
Street, Leeds LS1 4DA

## Capita Asset Services

Enquiries regarding shareholdings,  
change of address or similar particulars  
should be directed in the first instance  
to our Registrars, Capita Asset Services  
whose address is: The Registry,  
34 Beckenham Road, Beckenham,  
Kent, BR3 4TU, Kent, BR3 4TU or call  
0871 664 0300 (UK calls cost 10p  
per minute plus network extras). From  
overseas: +44 20 8639 3399. Lines are  
open 9.00am to 5.30pm, Monday to  
Friday, excluding public holidays.

## Filtronic website

Shareholders are encouraged to visit our  
website: [www.filtronic.com](http://www.filtronic.com) which has  
more information about the company.