Filtronic plc

Annual Report and Accounts 2016

Stock Code: FTC

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: Filtronic Wireless and Filtronic Broadband (which has been transitioned from the traditional point-to-point (PTP) backhaul business).

Filtronic Wireless is a leader in the design and manufacture of RF filters, microwave subsystems, and ultra wide band (UWB) antennas for the mobile telecommunications industry focusing on equipment for OEMs and network operators.

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.

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

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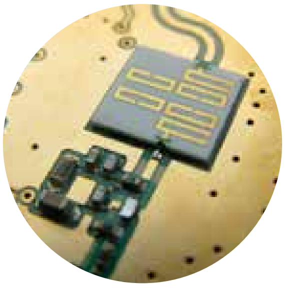
The mobile telecommunications infrastructure market continues to show strong growth and our E-band transceivers and ultra wide band integrated antennas will be our leading products in these markets in the next few years.



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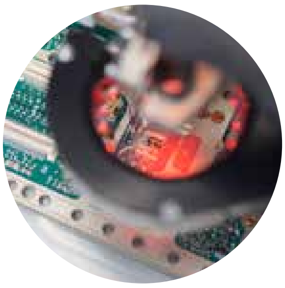
Market overview

Mobile video traffic is increasingly dominant and is forecast to grow by around 55 percent annually through to 2021.



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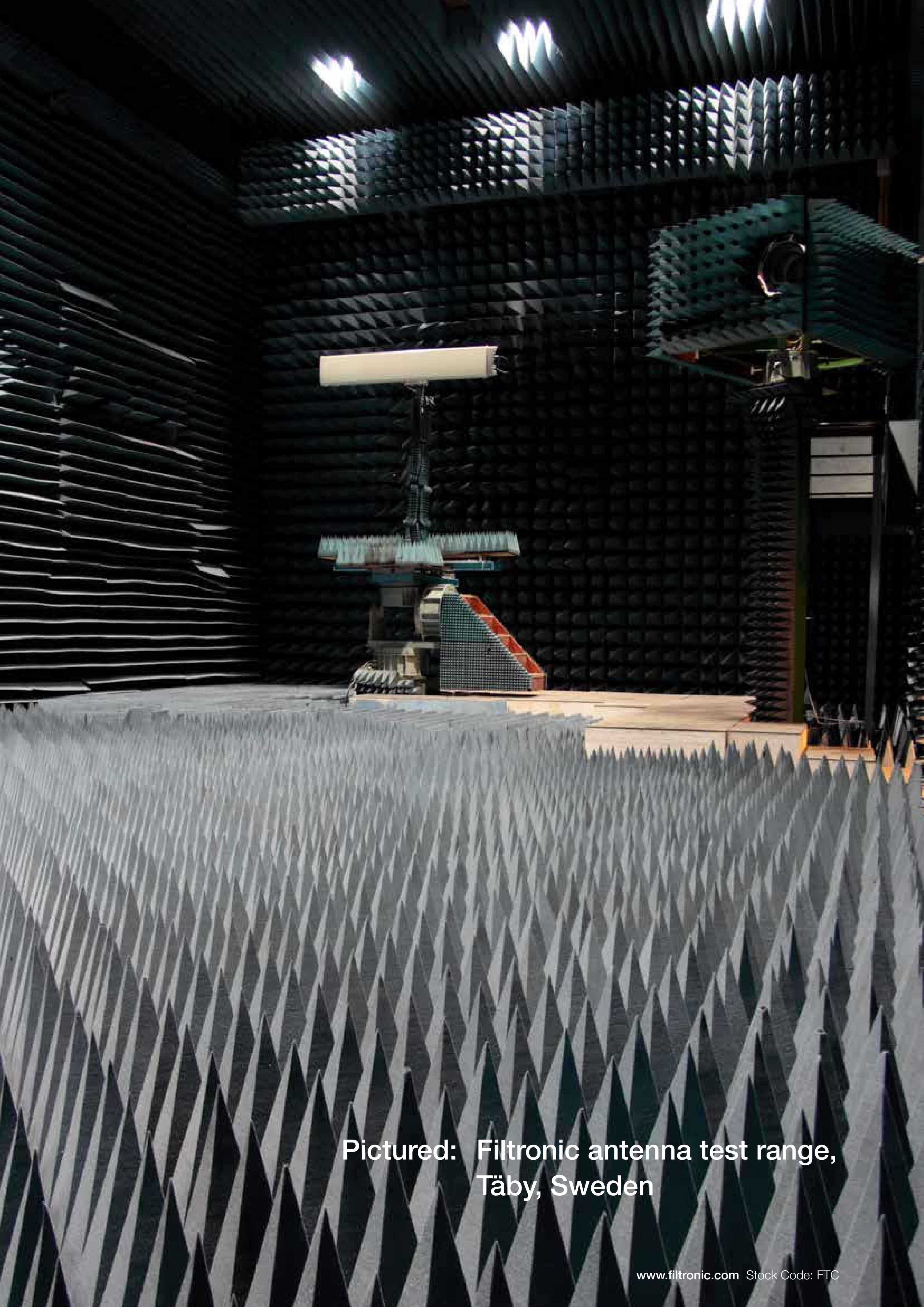
Objective and strategy

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

Glossary

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



Pictured: Filtronic antenna test range, Täby, Sweden

Strategic report

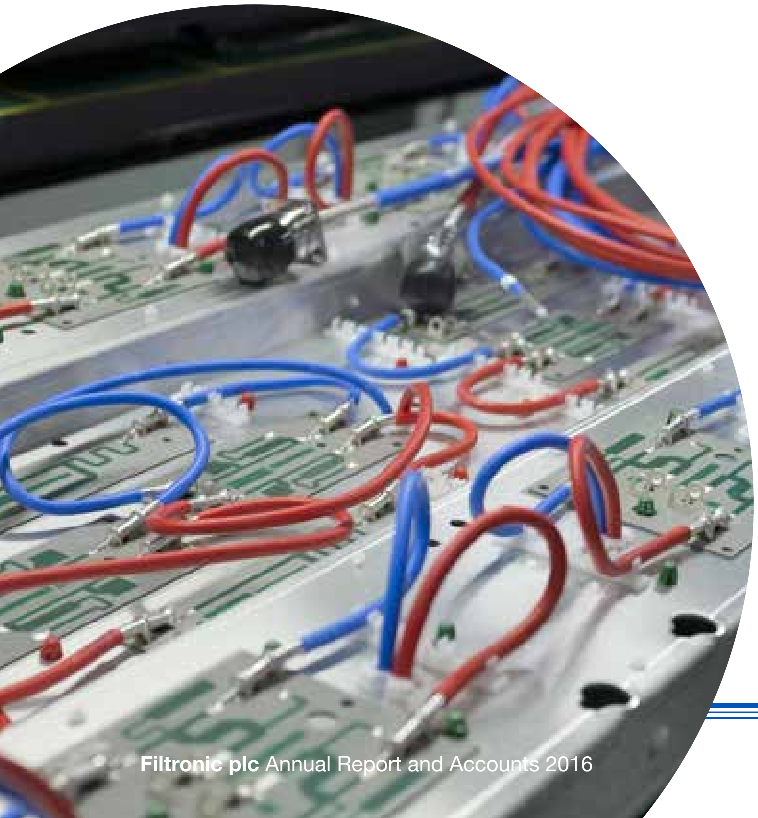
Financial highlights

	2016	2015
Sales revenue	£13.6m	£17.5m
Adjusted operating loss*	(£6.8m)	(£8.1m)
Operating loss	(£7.0m)	(£11.0m)
Loss before taxation	(£7.0m)	(£11.0m)
Basic and diluted loss per share	(3.20p)	(10.16p)
Net (debt)/cash balance as at 31 May	(£0.3m)	£0.8m
Cash outflow from operating activities	(£5.0m)	(£3.7m)

*Operating loss before amortisation of intangibles, exceptional items and R&D development cost capitalisation/amortisation (the definition of which is referenced in the income statement).

Operational highlights

- Receipt of several materially significant orders from a world leading wireless infrastructure OEM for our new integrated antenna product line.
- Orpheus, our new E-band transceiver, has seen demand ramping progressively with our lead customer whilst sample orders have been received and fulfilled from a further eight customers.
- Strong sales order book and growing customer opportunity pipeline resulting from improved sales and marketing activity.
- Investment in the senior management team including the appointment of a Managing Director in Filtronic Broadband with substantial sales and marketing experience.
- Restructured Filtronic Wireless delivering annualised cost savings of £1.2m with strategic focus on UWB antennas.
- Second half sales 100% higher than first half carrying good momentum into FY2017.



Pictured: Antenna phasing network

Chairman's statement

Dear fellow shareholder,

Welcome to the Filtronic plc Annual Report for the year ended 31 May 2016.

Over recent years the Company has focused considerable resources on developing advanced technologies and product capabilities across both Filtronic Wireless and Filtronic Broadband. However, the market demand for these new products emerged more slowly than anticipated. To provide a more secure financial platform to bring these new products to market the Board took the decision to raise additional equity in the form of a placing and open offer which together raised a net £4.5m after issue costs. In addition, the Board took the decision to substantially restructure the operational cost base of Filtronic Wireless enabling an annualised £1.2m of cost to be removed from the business, of which £0.6m was realised in the year ending 31 May 2016.

At this point the Board took the opportunity to move from the Main List to AIM on the London Stock Exchange, which it considered would provide a more appropriate corporate environment for the scale and nature of the company.

On behalf of the Board I would like to thank shareholders for their overwhelming support for these major developments.

At the time of the move to AIM, the Board reduced in size with the retirements at the 2015 AGM of Howard Ford as Chairman and Graham Meek as Senior NED. I would like to thank Howard and Graham for their unswerving commitment to the company over many years and in particular for their diligence during the difficulties of the past two years.

Following the refinancing and restructuring measures, the previously anticipated demand for the new products started to materialise and the year closed with an encouraging opportunity pipeline and a strong opening order book for the current year.

- During Q4 we announced several materially significant, orders from a world leading wireless infrastructure OEM for our new integrated antenna product line which leverages our long established excellence in filter design, with further enquiries for additional variants currently under development for trial this year.
- Our new E-band module, Orpheus, has been enthusiastically embraced by the market with our lead customer progressively ramping demand and a further eight new customers having ordered sample units to date. In addition, the application sphere for the Filtronic Broadband products in general has been significantly enhanced, providing a much needed broadening of our addressable market.

Financial Performance Summary

Overall, the performance for the year ended broadly as anticipated at the time of refinancing the business.

Group revenue for the year was £13.6m (2015: £17.5m) with a second half recovery of £9.1m (2015: £10.2m) following delays earlier in the year to the roll out of the ultra wide band antennas from our OEM customer.

An adjusted operating loss of £6.8m (the consolidated income statement on page 31 sets out the basis of calculation of the adjusted operating loss) was recorded for the year (2015: £8.1m loss) with cost reduction measures and new product orders coming through in the second half.

Filtronic Wireless business revenue was £9.0m (2015: £10.3m) with £7.0m being delivered in the second half. A Filtronic Wireless adjusted operating loss of £4.5m (2015: £5.7m loss) was delivered overall.

Filtronic Broadband business revenue was £4.6m (2015: £7.2m) with an adjusted operating loss of £1.7m (2015: £1.6m loss).

The Group had net debt of £0.3m at the end of the year (2015: £0.8m net cash). In addition to the equity funds raised during the year, the group's UK invoice discounting facility with Barclays was raised from £2.0m to £4.0m and a new invoice discounting facility in the US of $3.5m with Faunus Group International Inc (FGI) was secured in order to ensure we had sufficient headroom to finance the working capital requirements of our growing order book.

Dividend

No dividend is proposed for the year (2015: £nil).

Outlook

The growth in both orders and further opportunities for our new products is very encouraging and forms the basis for our continued confidence that we are on the right strategic pathway toward delivering a return to profitable growth. We remain, however, at the early post-launch stages for these new products and rely heavily on our end customer roll-out programmes performing to plan. Consequently, until these roll-out programmes are in full swing and the customer base has been further broadened, we expect to see some continued volatility in demand.

As I write this Chairman's statement we face considerable uncertainty as to the impact of 'Brexit' and it would be remiss not to mention it. We serve a global telecommunications and related sectors market working to global standards, Overall, at this time, we do not anticipate any significant impact from Brexit on our ability to design, manufacture and sell our products in Europe and the wider world. The more immediate impact of Brexit relates to currency exchange movements and whilst this situation is still very fluid, and its impact difficult to accurately predict, it is reassuring that much of our business is transacted in USD (both buying and selling) thus providing us with a good degree of natural hedging.

Finally, I would like to thank all Filtronic employees for their significant contribution and efforts over the past year in putting the business back on a path to profitability in addition to our shareholders and bankers for their continued support and patience. I look forward to the team delivering the success that we have all worked for.

Reg Gott
Chairman
2 August 2016

Chief Executive's review

Our focus and strategy

FY2016 was a critical turnaround year for Filtronic. It was important for us to act decisively to address the poor financial performance caused both by the slow take up of products developed in recent years and by increased commoditisation and falling prices in our traditional filter business.

Our primary market is the mobile telecommunications infrastructure market and the key trends in this industry have been the continuing roll out of 4G services and the ever increasing demand for data, principally in the form of streaming video services. The challenge in the industry has been to provide greater capacity in a highly competitive cost environment. Mobile network operators are increasingly moving to pricing models that charge for data consumption with the traditional service of voice telephony and text messaging bundled in at no extra charge.

For Filtronic to compete in this market environment we have to offer innovative product solutions that deliver fundamentally lower cost of ownership for the end user or provide a quantum shift at capacity bottlenecks. The key products we have focussed on have been integrated UWB antennas and E-band transceivers.

The organisation has been restructured to support this strategy and that has resulted in a reduction in our overall operating expenses. We have become more critical in our product development activities and carefully consider the return on investment when committing our resources. This rigour has forced us to ensure that we value our engineering assets more and move away from developing 'commodity products'.

During the second half of FY2016 we were delighted to make a number of contract award announcements that have validated our strategy. Whilst the progress we have made so far has been very encouraging, we are still in the early days of our turnaround strategy and until we have expanded our product portfolio and customer base we will remain exposed to short term variations in demand patterns at our main customer.

To this end we have recognised the need to improve our selling and marketing activities and have taken a number of initiatives to address this requirement, which have resulted in a substantially better opportunity pipeline that we are working hard to convert. This pipeline includes opportunities within the mobile telecommunications infrastructure industry and in the adjacent markets of satellite communications, defence & aerospace, and network communications.

Organisation

Filtronic is organised into two business units, both of which are independently managed to ensure that they are focussed on better serving their customers and delivering a profitable return.

The business units are: -

- Filtronic Wireless - specialising in integrated antennas, filters and combiners for the mobile telecommunications infrastructure industry.
- Filtronic Broadband - specialising in high-frequency transceivers, associated components and systems, primarily for the mobile telecommunications infrastructure industry, but with a growing presence in the satellite communications, defence & aerospace, and network communications sectors

In addition to the business units we have a small central cost centre that includes the Directors and the costs associated with being a plc.

Filtronic Wireless

Filtronic Wireless is a technology leader in the design and manufacture of ultra wide band integrated antennas, RF filters and combiners for the mobile telecommunications market, supplying both OEMs and network operators.

The segment of the market served by Filtronic Wireless is more widely known in the industry as RF conditioning and manages the various transmissions to and from base stations. The trend in recent years has been to reduce the total cost of RF conditioning by integrating as many functions at the top of base station masts as possible. By integrating RF conditioning into the antenna, Filtronic has successfully achieved this objective, as well as lowering total system investment and running costs which achieves an overall weight and wind loading reduction on the tower.

Our fundamental knowledge of antenna and filter design, management of PIM (Passive Intermodulation distortion) and electronics has enabled us to launch a range of products built upon a modular design philosophy meaning that we can quickly launch new product variants that address new frequency releases in the market place.

Good initial commercial success for our new antenna range has been achieved with a leading OEM to whom we supply a customised version of our core antenna design. We are now shipping this unit in volume after a successful production ramp in Q4 FY2016. Feedback from this lead customer continues to be positive and the long term demand projection is healthy.

We are now offering the core antenna products direct to operators and are beginning to see interest from a number of these potential customers. Whilst we are building this antenna business we can expect to see peaks and troughs in demand that will be smoothed as more product variants are released and more customers are converted.

The market for our traditional filter products has become increasingly commoditised and a number of trends in the market have conspired to make this a less attractive business proposition going forward. These trends include continued consolidation in the OEM customer base and a change in their business models toward outsourcing designed and manufactured product, combined with a slowdown in domestic demand in China that has released significant excess manufacturing capacity at low cost Chinese manufacturers who are now directly competing for this business in the west.

Notwithstanding the competitive pressures in the traditional filter market, there continue to be developments that will present opportunities for Filtronic. These include the release of new spectrum in the US (600MHz) and Europe (1400MHz) that will result in the demand for filters and combiners as operators look to deploy these frequencies. We expect therefore that there will be opportunities for operator direct business where there are more attractive requirements for combining the new bands with legacy spectrum.

Filtronic Broadband

Filtronic Broadband's core technology is mmWave transceiver products that operate in the E-band spectrum. These products have been developed, using Filtronic's proprietary chip set, to backhaul voice and data traffic, wirelessly, around the cellular network.

E-band is a particularly attractive technology for backhaul as it has far higher data rates than legacy wireless backhaul. Filtronic's latest offering, Orpheus, has consistently performed at data rates in excess of 4Gbps and is competitive with fibre optic cable in terms of speed, whilst offering a far higher degree of flexibility in terms of installation.

Orpheus was launched in October 2015 and has been well received by our lead customer and has been trialled by a further eight potential clients who have taken over 150 evaluation units to date. Output of the Orpheus line has continued to ramp since launch and we expect to see further growth in demand as we convert our pipeline of opportunities to production volume.

In addition to Orpheus, Filtronic Broadband has been developing its contract product development, manufacturing and test services to a range of clients who have high frequency transmit and receive requirements. In early 2016, we were delighted to announce that we had been awarded a contract to develop long range

Pictured: ODU, incorporating Orpheus

(20km) E-band communication modules for a prestigious US technology multinational. This contract has progressed well and a number of milestones have now been successfully achieved.

In October 2015, we appointed a Managing Director in Filtronic Broadband who has introduced a new commercial rigour and drive into the business. As a result, we have a growing pipeline of enquiries from a number of industry sectors that augment our traditional telecommunications market and the business will greatly benefit from the stability a more diversified customer base will bring.

Trends for the future

4G deployment is currently the dominant industry trend with operators' spend on infrastructure growing globally. We concur with analysts who anticipate that 4G roll out will continue into the 2020's and we will continue to position our product development roadmaps to where operators are investing.

5G development is increasingly being discussed within the industry. Whilst we feel it is too early for Filtronic to invest in product development while 5G is in the definition phase, we are confident that the higher data rates perceived as being required by 5G will mean that we will have a very active role to play when the time is right.

Rob Smith
Chief Executive Officer
2 August 2016

Market overview

Market overview

The mobile telecommunications infrastructure equipment sector is a $100 billion-plus market, which is experiencing substantial growth due to the continual year-on-year increase in demand for data.

Network infrastructure

This demand for infrastructure is being driven by the exponential global 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 on the move at any location. 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 the networks are being redesigned in order to provide a high-quality and seamless mobile broadband user experience for customers. Operators will be judged on whether applications ('apps') available to users can be accessed, and whether they work as expected.

Device affordability has increased subscriptions and smartphones are now used by more age demographics. Developing regions also now have access to 'smart' technology which indicates a shift in behaviour with requirements to access mobile data worldwide. 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.

Mobile data traffic is projected to increase at a compound annual growth rate of approximately 45 percent to 2021, with smartphones generating more data traffic than mobile PCs, tablets and mobile routers combined. It is projected that smartphone subscriptions will more than double by 2021 giving a 10-fold increase in traffic growth.

Mobile video is forecast to grow, where it will account for almost two-thirds of all mobile data traffic, an overall growth of around 55 percent annually through to 2021. Ericsson reports that YouTube is again dominating video traffic across many mobile networks, accounting for 50-70 percent of all video traffic (an increase of 10 percent from 2015); whereas Netflix has a share of 10-20 percent, attributable to the fact that it is traditionally viewed over a Wi-Fi network. Social media has also increased the amount of video traffic transferred via the mobile networks, a share of around 20 percent, as their sites and respective mobile apps have updated over the years to include videos and live streaming which auto-play on a user's 'time-line'.

> **"Mobile video traffic is increasingly dominant and is forecast to grow by around 55 percent annually through 2021 when it should account for over two-thirds of all mobile data traffic."**
> (Ericsson, June 2016)

> **"Given the massive explosion of video content available on the internet, there is a corresponding sharp increase in streamed video viewing, particularly among younger generations. Today's teens are streaming natives, as they have no experience of a world without online video streaming."**
> (Ericsson, June 2016)

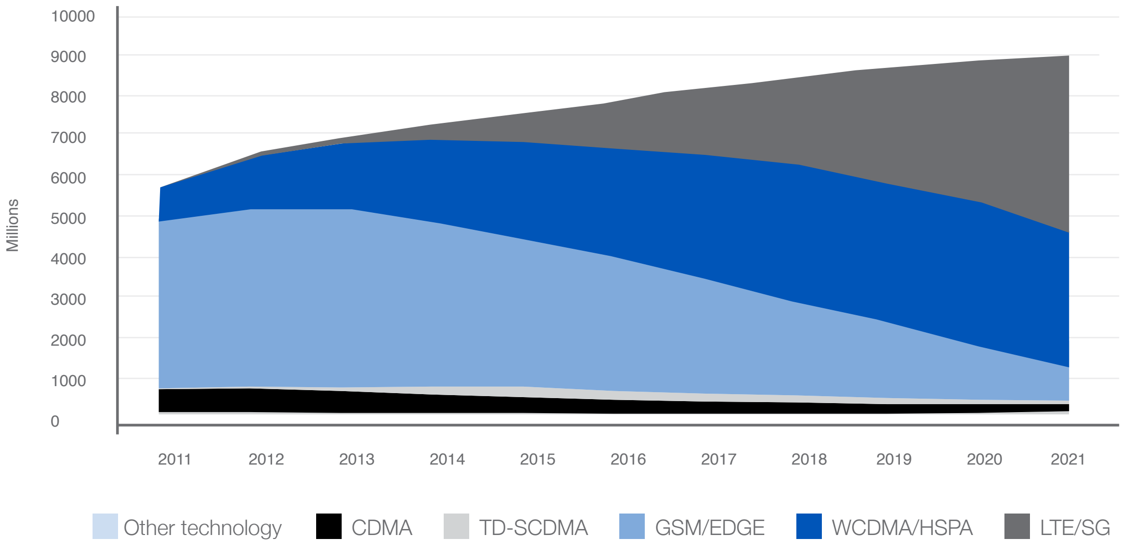
Todays' teenagers are the new streamers; being mobile first and mobile only. As the younger generation, in particular teens, now have access to a host of online content available 24/7, this has shown the viewing of TV/video on smartphones increasing by 85 percent in just four years. With many TV services moving to an online platform such as BBC iPlayer, NOW TV and Amazon Prime, this allows ease of access on smartphones and tablets. Viewing is changing as users are switching from traditional TV to streaming via their connected devices, and whilst a majority of this viewing data will be generated over Wi-Fi, the increased use of mobile network data is significant and will further fuel demand.

Disruptive and emerging technologies such as Snapchat and Instagram, are the latest and current apps which are causing an increase in video data traffic. These apps allow social sharing of videos and are popular among teenagers, who make and share videos from any location, requiring an immediate and seamless mobile broadband user experience.

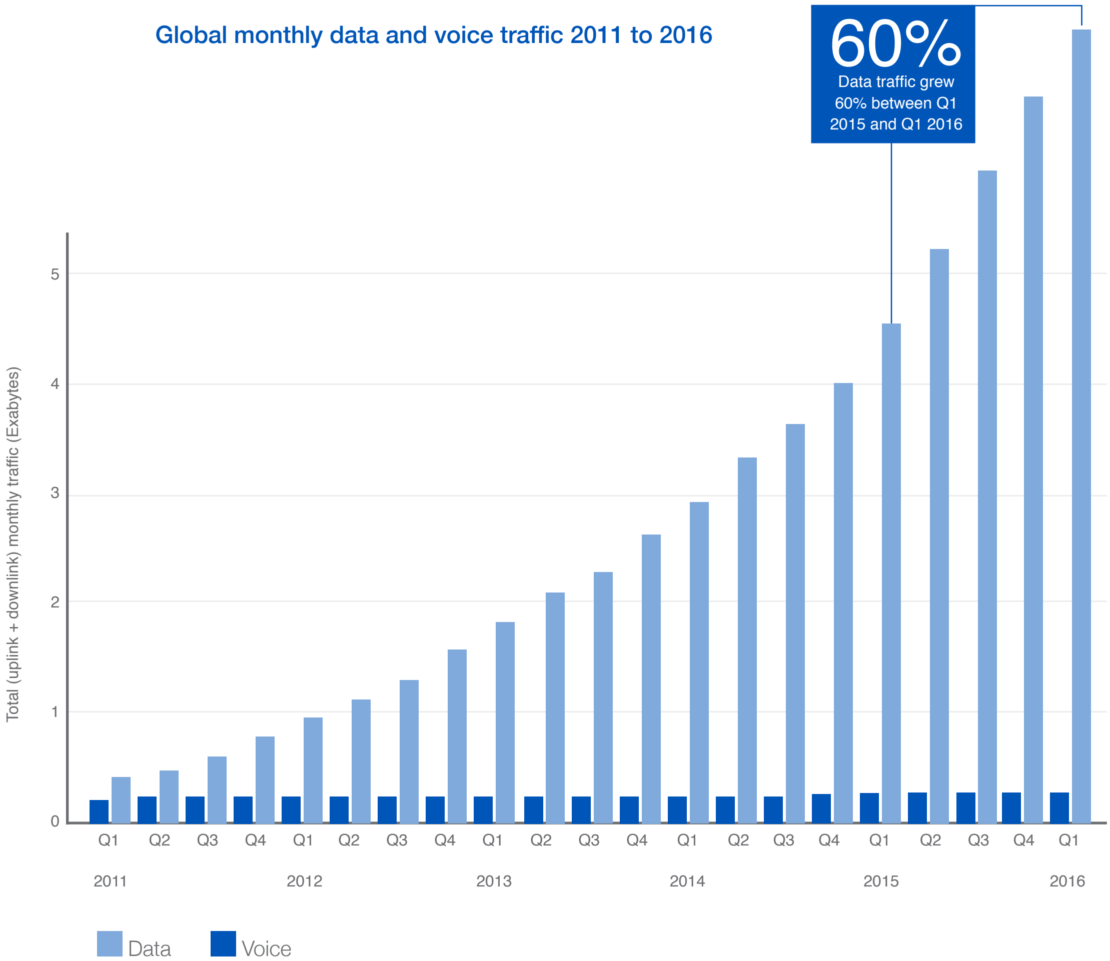
Gaming apps are set to be another heavy data user across smart devices. Pokémon GO, a recent addition to worldwide mobile gaming apps, with an estimated 21 million daily active users in the U.S. alone; remains permanently connected to data networks, and actively encourages users to travel away from household Wi-Fi networks and onto mobile data networks. Users of Pokémon GO might expect to use in excess of 2-8Mb of mobile data per hour whilst playing the game.

Other apps requiring continual updated location-based information are mobile dating apps, which are now commonplace on smartphones worldwide. Connections to mobile networks for location-based information means data usage over mobile networks is increasing in a population that is more technologically driven.

Subscriptions - All Device Types



Global monthly data and voice traffic 2011 to 2016



Strategic Report

Market overview continued

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.

Web browsing has shown a continual decline across all devices with consumer preferences shifting towards video and app-based mobile use.

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. Adoption of 4G/LTE has been faster in North America, where 3G was generally not adopted, and Asia, led by infrastructure investment in China.

Network backhaul

Mobile broadband backhaul capacity is predicted to see further expansion as demand continues to grow. By 2020, Ericsson predicts that 65 percent of all cell sites will be connected with microwave solutions as capacity needs continue to increase on the road to 5G. High capacity base stations will typically require backhaul in the 1Gbps range, however, capacity per base station will vary by site depending on population density and target data rates.

> "In supporting microwave to meet the capacity increase for backhaul as well as fronthaul, E-band (70/80 GHz) spectrum is the key."
>
> (Ericsson, September 2015)

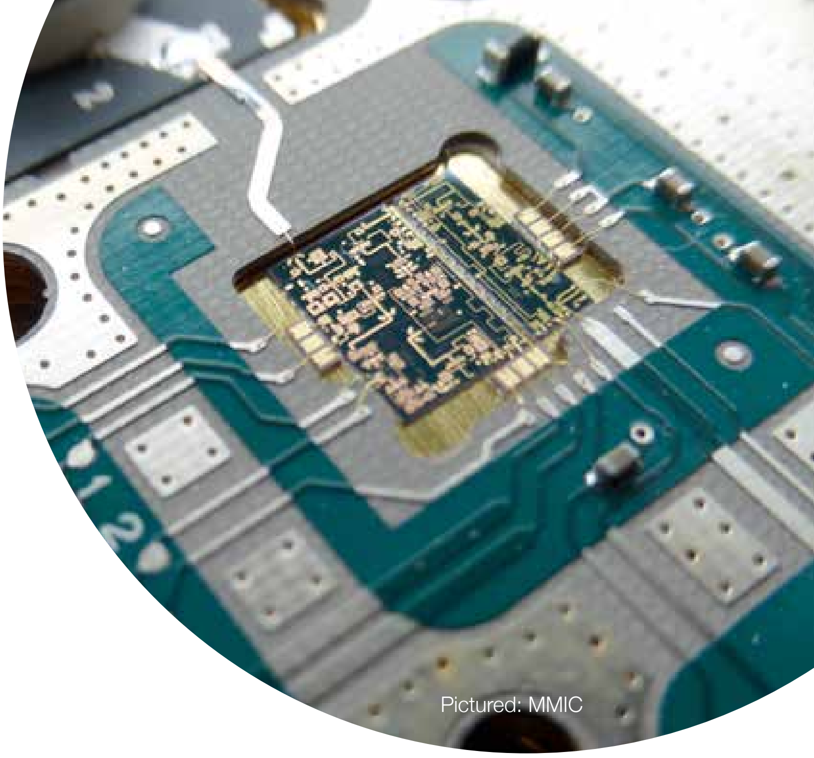
Network operators look to provide the best possible performance and quality of experience in the most cost-efficient way, and microwave networks have become the dominant backhaul technology to support this, due to the quick deployment, high capacity capabilities and the low total cost of ownership. As microwave solutions are also able to support legacy equipment, vertical applications such as broadcasting, utilities and transport networks are looking to migrate away from fibre.

To meet the capacity increase for backhaul as well as fronthaul, the E-band spectrum is key, due to its advantages of a wide spectrum and channels that enable very high capacities. The E-band market is expanding quickly and has already been opened in many countries with additional countries rapidly being added.

E-band World Map

Open for deployment | Considered to be open for deployment | Not yet considered to be open for deployment | Unknown

Source: Ericsson (2015)


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 the modernisation of their infrastructure and to adopt new technologies such as HSPA, LTE and Advanced-LTE. The modernisation process has led to the development of seamless heterogeneous networks capable of handling multiple technologies.

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

The next step in this ongoing network development is the inclusion of the upcoming 5G services. Whilst we await the final specification and standards for the deployment of 5G networks, the need for spectrum harmonisation between countries is being discussed by mobile network operators, including the challenges of including microwave backhaul to ensure coverage and capacity of 5G services.

The Internet of Things ('IoT') is an increasing high growth market due to the evolution of the smartphone and smart devices. Whilst mobile phones are expected to remain the largest category of connected device, it is expected that by 2018 they will be surpassed by IoT, which includes connected cars, machines, utility meters, remote metering and consumer electronics. Cellular IoT is expected to have the highest growth, with an estimate of 1.5 billion cellular subscriptions by 2021, requiring network operators to increase efforts on access and coverage to mobile network services.

Conclusion

The wireless infrastructure market, including mobile backhaul, will continue to grow as network operators upgrade their networks to provide platforms capable of delivering the coverage, capacity and resiliency required to service the growing data traffic generated by users of smart mobile and IoT connected devices.

It is this continual growth and increase in demand for data that will drive demand for both Filtronic Wireless and Filtronic Broadband, with Filtronic positioned to be a key supplier to OEMs and operators as they develop and supply products required to upgrade current networks to satisfy consumer demand for high quality, seamless mobile experiences.

Data and information in the market overview have been sourced from the June 2016 Ericsson Mobility Report that is available at http://www.ericsson.com/mobility-report, and the September 2015 Microwave Towards 2020, https://www.ericsson.com/res/docs/2015/microwave-2020-report.pdf.


Pictured: Filtronic exhibiting at the IMS exhibition, San Francisco, USA - 2016

Objective and strategy

Our objective is to be a profitable supplier of value added RF, microwave and millimetre-wave sub-systems to the global telecommunications equipment infrastructure and adjacent markets.

As a market led business, we aim to meet the growing need for technically advanced products that satisfy our customers' demands for enhanced capability and capacity whilst reducing overall cost of ownership.

The Group comprises two business units.

Filtronic Wireless

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

Filtronic has developed a range of UWB antennas, based on our own IP, that cover current released spectrum in the US, Europe and other major territories. We continually upgrade products to cover new spectrum releases. Our products are designed specifically to address the operator direct market but we work with OEMs to customise products to meet their specific requirements.

Our antennas are designed for mechanical and electrical performance requiring no in-production tuning. All our products have PIM optimised designs by using antenna elements without galvanic contact to ground, a low number of solder points and metallic parts that are galvanically isolated where possible. Antennas incorporate fully integrated Remote Electronic Tuning (RET) and incorporate EMC designed internal RET control.

"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)

We offer solutions for DAS to Macrocells and all array topologies (interleaved and side-by-side) are compelling offerings compared to competitive products.

These products are designed and engineered to offer lower overall system cost, weight and wind loading characteristics.

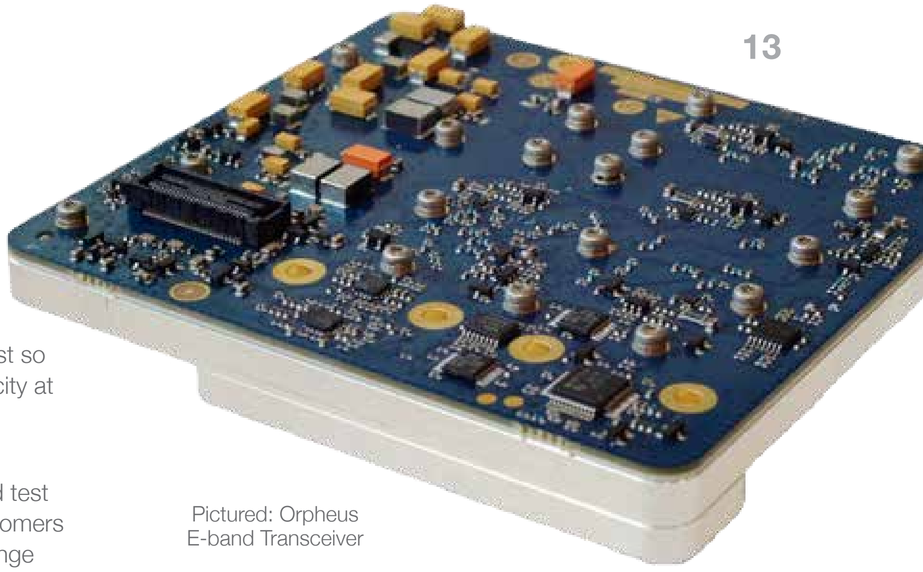
Our filter and combiner products have been developed to either OEM specifications or to satisfy niche operator requirements.

Filtronic Wireless sells directly to OEMs based on relationships developed over a number of years and both directly and through manufacturers' representatives to mobile network operators in the US and Europe.

Filtronic Broadband

Filtronic Broadband has developed proprietary, best in class chipsets that are incorporated into our leading E-band modules. Our latest generation product, Orpheus, is capable of operating at greater than 5Gbps and has a compact form factor designed to enable our customers to develop small, light outdoor radios for cell tower mounting.

Pictured: Manufacturing line in China



Pictured: Orpheus E-band Transceiver

Our product development road map is targeted at increasing data rates and reducing total product cost so that operators can have the highest backhaul capacity at the lowest cost per Gb available.

In addition to our E-band range Filtronic's unique capabilities of high frequency product assembly and test have been recognised by a growing number of customers in a number of adjacent markets. We also offer a range of RF and microwave components to customers in the Defence & Aerospace industry.

Filtronic Broadband sells direct to customers and uses manufacturers' representatives where appropriate.

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 the large OEMs that supply these network operators. In Filtronic Wireless we are focused on delivering ultra wide band integrated antennas. In Filtronic Broadband the focus is on further commercialising our latest generation of E-band modules. By 2020, high capacity base stations are predicted to require mobile backhaul to achieve a traffic rate of 1Gbps and then, with the adoption of C-RAN, a rate of up to 10Gbps.

Pictured: Cross pilarised panel ultra wide band antenna

Investing in research and development

Filtronic operates in a fast moving, technology driven market place where generating our own proprietary technology is key to maintaining 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.

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.

Filtronic Wireless continues to develop its long-standing relationship with its manufacturing partner in China where we have our own specialist staff on site to ensure close cooperation and good communication.

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

Financial review

Revenues

Sales revenue in the year ended 31 May 2016 for the Filtronic Group was £13.6m (2015: £17.5m) with a stronger performance in the second half of the year of £9.1m (2016 H1: £4.5m). This was predominantly due to the encouraging growth in the second half of the new antenna product range in the Filtronic Wireless business as it underwent a production ramp in the final quarter. Filtronic Broadband, however, saw sales in the year decline as the new E-band production volumes took longer than expected to ramp and so failed to fully offset the anticipated legacy product sales reduction.

Operating Costs

As set out in the table below, operating costs were reduced as the cost base of the organisation was aligned with reductions in revenues. Cash overheads reduced to £10.0m (2015: £13.6m). This was achieved by two programmes of cost reduction; one implemented in the year under review with an annualised £1.2m of cost removed from the business, mainly from headcount reduction, with £0.6m of the benefit coming in the financial year and the second from a programme implemented in FY2015 with the Group benefitting from a full year of cost savings in this financial year valued at £2.0m. The headcount at 31 May 2016 was 118 (2015: 133).

Cost savings from cost reduction programmes

	FY2015 Impact £m	FY2016 Impact £m	FY2017 Impact £m
FY2015 cost reductions	0.2	2.0	2.0
FY2016 cost reductions	-	0.6	1.2
Annualised impact	**0.2**	**2.6**	**3.2**

The table shows the cumulative impact is a £3.2m cost saving in 2017 over the 2015 base line costs.

Adjusted operating loss

Adjusted operating loss (the definition of which is referenced on the income statement on page 31) was £6.8m (2015: £8.1m loss). Filtronic Wireless saw its adjusted operating loss reduce to £4.5m (2015: £5.7m) despite reduced revenues. Financial performance improved as the year progressed with an adjusted operating loss in the second half of £1.8m (2016 H1: £2.7m). The margins on the antenna products, which started shipping in volume in Q4, were initially low as start-up yield and volume ramp issues were overcome and significantly improved margins will be realised in FY2017. For the year as a whole, Filtronic Broadband's adjusted operating loss was slightly higher than the previous year at £1.7m (2015: £1.6m) However, in the second half of the year, Filtronic Broadband's performance was significantly improved, and much better than the second half of the previous year, largely as a result of the previously announced contract win with a large US multinational.

A table of these results is set out on page 15.

Exceptional costs

Exceptional costs of £0.4m (2015: £0.5m) primarily related to the costs associated with reducing the overhead cost base and the Company's move from the Official List to AIM on the London Stock Exchange.

Taxation

A tax credit of £1.9m (2015: £0.5m) has been recognised for the year, as set out in note 12 to the financial statements. An R&D tax credit from the prior year accounts form a large part of this value and will be realised in FY2017 as cash to assist cash flow. The remaining part of the tax credit is the recognition of a deferred tax asset of £0.8m in respect of brought forward losses.

Capital expenditure

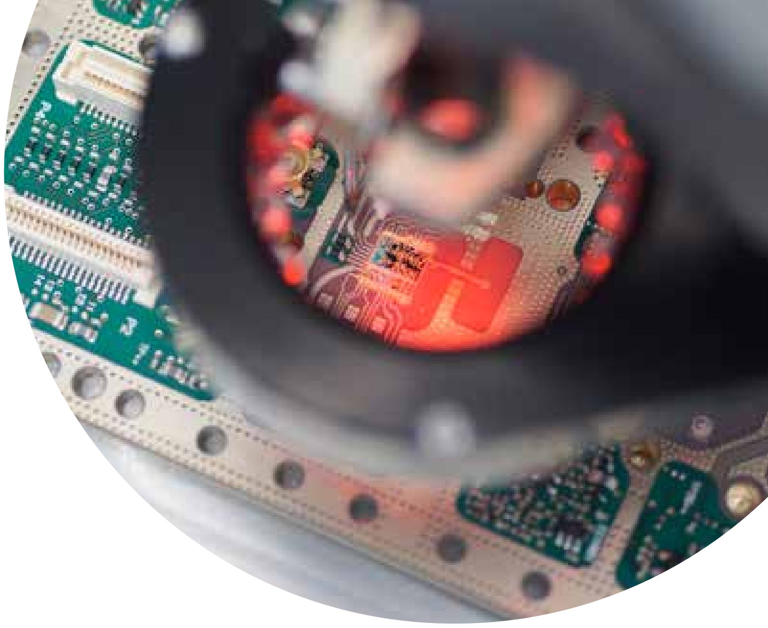
Capital expenditure of £0.2m (2015: £0.2m) included £0.1m for Filtronic Wireless (2015: £0.2m) and £0.1m for Filtronic Broadband (2015: £nil).

Research and development costs

Total research and development costs in the year were £4.3m (2015: £6.5m). Historically, the Group has expensed all its research and development costs as they did not meet the criteria for capitalisation under IAS 38, as set out in note 2 to the financial statements. In the current financial year, some £0.3m of research and development costs (£0.2m in Filtronic Wireless and £0.1m in Filtronic Broadband) were judged to have met the criteria for capitalisation and have accordingly been capitalised. Amortisation of these capitalised costs was negligible in the financial year and therefore the total charge to the income statement in respect of Research and Development costs was £4.0m (2015: £6.5m)

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 2016 the inventory provision was £1.7m (2015: £1.6m).



Pictured: Automatic wire bonder

Warranty provision

In line with industry practice the Group provides warranties to customers over the quality and performance of the 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. As at 31 May 2016 the warranty provision was £0.2m (2015: £0.1m).

Funding and cash flow

The Group ended the year with net debt of £0.3m (2015: £0.8m net cash). The decrease resulted from the operating losses incurred in the year, offset by the proceeds of the placing and open offer (net of issue costs) of £4.5m. Cash outflow from operating activities was £5.0m (2015: £3.7m).

With volume ramps expected on both the antenna product range and Orpheus, our E-band product, a key focus for the Group is the management of cash to facilitate each of the production ramps and their increased working capital requirements, in addition to enabling continued investment and development of our product ranges to ensure we remain well positioned in the market.

Filtronic has two invoice discounting facilities in place, with Barclays Bank plc in the UK and Faunus Group International Inc (FGI) in the US. The Barclays facility has increased to £4.0m following the successful negotiation of a temporary increase from £2.0m, which is the Group's long term agreed facility level. It is anticipated this increased facility will revert to £2.0m in October 2016 once we have overcome the working capital impact of the volume production ramp. As at 31 May 2016, £0.5m was drawn down against this facility (2015: £0.3m). The FGI facility enables the US Filtronic Wireless entity to borrow up to $3.5m against its debtor book. As at 31 May 2016, £0.7m (2015: £nil) was drawn down against this facility which is our minimum borrowing requirement at any given time.

On 16 November 2015 the Company completed a move to AIM on the London Stock Exchange. 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. This move to AIM was accomplished at the same time as the share placing and open offer.

Michael Tyerman
Finance Director
2 August 2016

Adjusted operating loss by business and financial period

	H1 FY2016 £m	**H2 FY2016 £m**	**FY2016 Total £m**	H1 FY2015 £m	H2 FY2015 £m	FY2015 Total £m
Filtronic Wireless	**(2.7)**	**(1.8)**	**(4.5)**	(2.6)	(3.1)	(5.7)
Filtronic Broadband	**(1.1)**	**(0.6)**	**(1.7)**	(1.1)	(0.5)	(1.6)
Central	**(0.3)**	**(0.3)**	**(0.6)**	(0.4)	(0.4)	(0.8)
Total Group	**(4.1)**	**(2.7)**	**(6.8)**	(4.1)	(4.0)	(8.1)

Risk management

Effective risk management is key to our success both in 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 high 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 in both Filtronic Broadband and Filtronic Wireless as well as a number of network operators in Filtronic Wireless. The loss of any of these customers, material reduction in orders from any such customer or the timing of customer project rollouts 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 and operator products. This strategy is designed to diversify market risk. In addition, Filtronic Broadband is actively engaging within adjacent markets of satellite communications, defence & aerospace and network communications. 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 Group 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. Filtronic Broadband manufactures and assembles based on its core competences and where appropriate outsources non-core processes to suppliers who can offer better quality and consistency of manufacturing. Filtronic Wireless has an outsourced partner who has a high degree of flexibility and a proven track record of product ramp and mass volume manufacturing. All our products are provided to customers after detailed qualification testing. We work closely with our customers to ensure that the test processes 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.	

Pictured: Filtronic antenna test range, Täby, Sweden

Risk	Nature	Mitigation	Change in year
Recruitment and retention	The Group is reliant on the key skills and knowledge of its people in a range of areas but especially in the engineering function. Failure to recruit and retain an appropriate number of suitably qualified people in critical areas could affect our ability to design new products and meet our customers needs. We have also benefited from a number of non-UK employees filling key roles within the business due to the highly technical nature of our activities. These skills are not always readily available within the UK and any restrictions on employment of these people would have an adverse effect on the Group.	The Group has a competitive remuneration package that is reflective of market conditions for key roles and is under review as conditions change. The Group also operates a long term incentive plan for key employees as well as SAYE schemes for all UK employees. A number of key employees have been brought in to the Group during the year to strengthen the senior management team. We also provide regular communications to all employees through regular communication meetings in each of our businesses along with a monthly newsletter and a CEO blog giving updates about business performance. By giving our employees an understanding of our strategic direction we believe it enables them to make meaningful contributions to the achievement of our goals.	⌃
Financial management	The Group has a specific exposure to credit risk and exchange rate fluctuations. A large proportion of the Group's sales are denominated in US dollars, so the Group is subject to risks associated with currency movements.	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. Predominantly, currency risk on the US dollar is managed through a natural hedge.	⌃

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.

The Board regularly reviews 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.

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 groups, stakeholders and its approach to key issues and its aims for the future.

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 have appointed a dedicated HSE consultant to further enhance our commitment towards health and safety.

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 business.

Equal opportunities

The Group is committed to a policy of equal opportunities by which it 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.

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 Chief Executive Officer is the board member responsible for human resources.

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. During the year, the Group adopted a specific policy on modern slavery reflecting the obligations contained in the UK's Modern Slavery Act 2015. Filtronic is committed to ensuring transparency in our approach to tackling modern slavery throughout our supply chain.

Pictured: Die bonding at NETPark

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 environmental stewardship.

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

Charitable and community support

Filtronic Broadband has signed up to be part of the Future Business Magnates initiative, which is an enterprise competition for schools. Each school is paired with a business partner who provides industry experience, support and advice to assist the school team to prepare for their challenges. In return, the business assists schools to deliver an understanding of enterprise, broaden student understanding of job roles and functions, and provides an introduction to possible career pathways, assisting study choices.

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. The Group has adopted a specific policy on conflict minerals and works with our suppliers to ensure implementation including reporting on the use of conflict minerals throughout our supply chain.

The implementation of these management systems, which are designed to monitor and control processes such as quality, the 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 management) process this financial year.

Key performance indicators

	Group		Filtronic Broadband		Filtronic Wireless	
	FY2016	FY2015	**FY2016**	FY2015	**FY2016**	FY2015
Adjusted operating loss per employee Filtronic recognises that employees are a critical asset in our business and we monitor the profit per employee to measure productivity.	**(£54,528)**	(£47,837)	**(£28,249)**	(£19,566)	**(£80,153)**	(£66,115)
Research and development to sales percent 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.	**29.5%**	36.9%	**18.4%**	13.2%	**35.2%**	53.6%
Adjusted operating loss to sales per cent The Board monitors profitability to ensure that an acceptable return is being made on operating activities in the year.	**(50.4%)**	(46.4)%	**(37.3%)**	(22.8%)	**(50.4%)**	(55.4%)
Inventory turns 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.	**21**	19.3	**2**	12.2	**34**	30.0
Trade receivables days In line with other companies in the sector the Group extends credit facilities to customers that have an acceptable credit rating.	**77**	86	**65**	61	**89**	97
Trade payables days The Group receives credit from a number of suppliers and recognises the importance of paying its suppliers on time.	**82**	72	**92**	54	**80**	76

Governance Report

Introductory letter from the Chairman of the Board on the Governance Report

Dear fellow shareholder

Following its admission to AIM in November 2015, the Company is no longer required to comply with the revised 2014 UK Corporate Governance Code ("the Code"). However, since the Board has developed and implemented, over a number of years, comprehensive governance policies and procedures commensurate with the requirements of a company with a premium listing, it intends to maintain, in the main, the same level of governance and continue, where reasonably practical to do so, adherence to its existing policies and governance framework.

The Board does however intend to reduce the management time and cost burden of producing the annual report by streamlining it where it feels it can reasonably do so without diluting transparency or shareholder visibility.

I hope you will find this report helpful in understanding our commitment to good governance.

Yours sincerely
Reg Gott
Chairman
2 August 2016

Governance Report continued

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

The Board

The Board is comprised of two executive Directors (Rob Smith, CEO and Michael Tyerman, FD) and two non-executive Directors (Reg Gott, Chairman and Michael Roller). The Board is supported and assisted by the Company Secretary (Maura Moynihan), who attends and minutes each board meeting.

Executive Directors

Robert (Rob) Smith (aged 52) was appointed as Chief Executive Officer with effect from 3 March 2015. Prior to this date he was Chief Financial Officer. He was previously 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.

Michael Tyerman (aged 37) was appointed as Finance Director with effect from 1 April 2016. Prior to joining Filtronic, Michael held various positions within Procter and Gamble, Huntsman Polyurethanes and Komatsu. He joined Filtronic in 2007 as Financial Controller of Filtronic Broadband and was promoted to the position of Group Financial Controller in 2009. He was Interim Head of Finance for the Filtronic Group from June 2015 and served in this position until his appointment to the Board. Michael is a Chartered Management Accountant.

Non-executive Directors

Reginald (Reg) Gott (aged 59) has been a non-executive Director since 2006. He was appointed as Chairman of the board at the AGM held in 2015. He continues to act as the Chairman of the Remuneration Committee. He was Chief Executive of Resource Group Limited until early 2016. 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 51) was appointed as a non-executive Director on 1 June 2013 and also took over as Chairman of the Audit Committee at the 2015 AGM. 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.

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.

Relations with shareholders

The Board places great value on maintaining open relationships with shareholders and the primary point of contact in the Company for this function is the CEO, supported by the FD, both of whom undertake an extensive programme of meetings with shareholders at least twice a year following the release of results announcements. The success of the 2015 share placement exercise is a measure of the effort and the quality of this work delivered by the CEO. In 2015 the Chairman accompanied the CEO on his investor rounds and is available to speak with shareholders at their request. Presentations are also made to analysts at those times to present the Group's results. This assists with the promotion of knowledge of the Group in the investment marketplace and with shareholders and also helps the Directors to understand the needs and expectations of shareholders. The Board believes that the Annual General Meeting provides an excellent opportunity to communicate directly with shareholders.

Board meetings

The Board meets regularly against a defined reporting timetable and also at times in between the scheduled meetings when required.

As far as is reasonably practical, the board meetings are held at the Company's main operational sites to enable local management teams to present operational and strategic programme progress to the Board. The Board believes this fosters greater transparency and enhanced relationships between the management and the Board.

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 the 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.

Committees

The Board continues to operate with three committees, the Audit Committee, the Remuneration Committee and the Nominations Committee. Detailed written terms of reference for each committee are maintained and are available to view on the Company website.

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 Michael Roller and includes Reg Gott.

Nominations Committee

The Nominations Committee is chaired by Reg Gott and includes 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.

Remuneration Committee

The Remuneration Committee is chaired by Reg Gott and includes Michael Roller. The members of the Remuneration Committee have no personal interest in the matters considered other than as shareholders. No potential conflicts of interest exist in relation to any 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 or the quality required to run the company successfully whilst avoiding paying more than is necessary for this purpose.

The CEO, FD and Company Secretary attend the committee meetings when invited, as appropriate.

Directors' attendance table FY2016

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 2016 was as follows:

	Board	Audit	Nominations	Remuneration
Total meetings in year	13	4	2	4
Director attendance				
Reg Gott	13	4	2	4
Michael Roller	12	4	2	4
Rob Smith	13	N/A	N/A	N/A
Michael Tyerman	3/3	N/A	N/A	N/A
Howard Ford	8/8	0/1	1/1	2/2
Graham Meek	7/8	0/1	1/1	2/2

Attendance at board (and committee) meetings held in FY2016

In addition to these 13 board meetings, there were 10 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.

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 2016.

Since the move to AIM, the Company is no longer required to produce a comprehensive Directors' Remuneration Report or to submit a remuneration policy to a binding vote. As previously explained, however, although wishing to reduce the management time and cost burden of providing comprehensive reports, the Board does wish to maintain transparency and so provides the following Remuneration Report.

The Remuneration Report sets out payments and awards made to the Directors.

The Remuneration Committee comprises the 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 Remuneration Committee has reviewed the remuneration packages of the executive Directors 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.

The Remuneration Committee met four times during the year and ad hoc when needed.

Reg Gott
Chairman, Remuneration Committee
2 August 2016

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

Name	Executive service agreement appointment date	Key current terms	Notice period
Rob Smith **CEO**	Appointed to the Board on 16 June 2014 Appointed CEO on 3 March 2015	Base salary £153,750 Car allowance Annual bonus Health insurance Pension	12 Months
Michael Tyerman **Finance Director**	Appointed to the Board on 1 April 2016	Base salary £82,000 Car allowance Annual bonus Health insurance Pension	6 Months

Name	Role	Non-executive terms of appointment date	Fee	Notice period
Reg Gott	Chairman, Nominations Committee Chairman and Remuneration Committee Chairman	Appointed to the Board on 13 July 2006	£60,000	6 Months
Michael Roller	Audit Committee Chairman	Appointed to the Board on 1 June 2013	£35,000	3 Months

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

Total single figure of remuneration for Directors

The 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.

	Salary or fee		Bonus		Benefits		Total remuneration excluding pension contributions and share based payments	
£000's	**FY2016**	FY2015	**FY2016**	FY2015	**FY2016**	FY2015	**FY2016**	FY2015
Executive Directors								
Rob Smith	**150**	143	**50**	50	**11**	10	**211**	203
Alan Needle	**-**	279	**-**	-	**-**	7	**-**	286
Michael Tyerman*	**14**	-	**-**	-	**1**	-	**15**	-
Non-executive Directors								
Reg Gott	**50**	40	**-**	-	**-**	-	**50**	40
Michael Roller	**38**	40	**-**	-	**-**	-	**38**	40
Howard Ford**	**35**	70	**-**	-	**1**	1	**36**	71
Graham Meek**	**20**	40	**-**	-	**-**	-	**20**	40
Total	**307**	612	**50**	50	**13**	18	**370**	680

*Michael Tyerman was appointed to the Board on 1 April 2016
**Howard Ford and Graham Meek retired on 27 November 2015

Governance Report

Annual report on remuneration continued

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.

	Pension contributions	
£000's	**FY2016**	FY2015
Rob Smith	**12**	12
Michael Tyerman	**1**	-
Total	**13**	12

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 FY2016 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 FY2016

Given the difficult circumstances at the time of Rob Smith's appointment to the position of CEO, he was awarded a two-part retention payment of which the second installment of £50,000 was paid on 31 December 2015 for remaining in post and not having served notice by 31 December 2015.

Statement on voting at the 2015 Annual General Meeting

The voting on the Directors' Remuneration Report at the 2015 AGM was as follows:

		Shares
For/discretionary	99.94%	110,354,170
Against	0.06%	63,682
Withheld	0.00%	14,736

Annual performance related bonus plan

An annual performance related bonus plan has been introduced for the year ending 31 May 2017 which will reward executive Directors and key management and staff cash bonuses for delivering stretching profit targets aligned to the 2017 business plan.

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

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.

The interests of the Directors, who were serving as at 31 May 2016, in the Company's ordinary shares, which excludes interests under the share option schemes, are set out below:

	2016		2015	
	Shares	**%**	Shares	%
Rob Smith	**257,656**	**0.1%**	57,656	0.1%
Michael Tyerman	**10,611**	**0.0%**	1,271	0.0%
Reg Gott	**359,429**	**0.2%**	154,429	0.1%
Michael Roller	**101,762**	**0.0%**	28,833	0.0%
	729,458	**0.3%**	242,189	0.2%

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

Management share option scheme - audited

The executive Directors who served during the year ending 31 May 2016 held the following options over the ordinary shares of the Company.

	Plan	Exercise period	Option price	2016	2015
Rob Smith	ESOP	14/08/2017 - 13/08/2024	25.75p	-	175,000
Rob Smith	ESOP	01/03/2019 - 28/02/2026	5.37p	1,000,000	-
Rob Smith	SAYE	01/06/2019 - 30/11/2019	5.20p	165,565	-
Michael Tyerman	ESOP	01/03/2019 - 28/02/2026	5.37p	300,000	-
Michael Tyerman	SAYE	01/06/2019 - 30/11/2019	5.20p	275,478	-
				1,741,043	175,000

The ESOP scheme introduced in May 2016 was opened to executive Directors and key management and staff across the Group with the specific intent to retain staff by awarding share options for delivering a significant increase in the share price, which if sustained for a defined minimum period will trigger vesting, but which can only be exercised by Directors after three years of the scheme opening. Participants of this scheme were asked if they would like to voluntarily relinquish any outstanding options they held in previous management incentive share option schemes. More information on the specific nature of these options can be found in note 29 (management incentive plans).

Rob Smith and Michael Tyerman voluntarily relinquished all of the share options granted under the previous ESOP scheme.

The closing middle market price on 31 May 2016 was 11p, and on 29 May 2015 it was 12p. The range of middle market share prices during the year ended 31 May 2016 was 5p-12p.

There were no changes in Directors' interests between 31 May 2016 and 1 August 2016. The Company's register of Directors' interests, which is open to inspection at the registered office, contains full details of Directors' shareholdings.

Directors' Report

The Directors present their report together with the audited consolidated financial statements for the year ended 31 May 2016. 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 revenue, trading results and cash flows are explained in the financial review on page 14.

After a review of forecasts including projections of profitability and cash flows for the two years to 31 May 2018, the Directors believe that the Group has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidation and Company financial statements.

Directors and their interests

The Directors of the Company during the year were as follows:

Rob Smith
Michael Tyerman
Reg Gott
Michael Roller
Howard Ford (retired 27 November 2015)
Graham Meek (retired 27 November 2015)

Details of Directors' interests in the share capital of the Company are set out in the Remuneration Report on page 26.

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

Michael Tyerman, having been appointed by the Board on 1 April 2016, offers himself for election at the Annual General Meeting.

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

Directors' indemnity

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

Directors' conflicts of interest

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

Research and development expenditure

Research and development costs in the year were £4.3m (2015: £6.5m), of which £0.3m were capitalised (2015: £nil).

Substantial shareholdings

Up to 31 May 2016 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 2016 (as disclosed by shareholders via TR1), is set out in the table below. As at 31 May 2016 the Company had issued share capital of 206,910,146 0.1p ordinary shares.

Financial results and dividend

The results for the year are set out in the income statement on page 31. The position at the end of the year is shown in the balance sheet on page 33.

The Directors are not recommending payment of a dividend (2015: nil).

Share capital

The Company's share capital consists of 0.1p ordinary shares. The rights and obligations attached to each share are equal. Each share carries the right to one vote at the Annual 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 November 2015.

Top Investors

Rank	Investor	31-May-16	% IC
1	Aberforth Partners LLP	34,591,915	16.72%
2	Legal & General Investment Management Limited	30,994,078	14.98%
3	Mrs D. M. Dixon	16,450,000	7.95%
4	Hargreave Hale Limited	10,724,500	5.18%
5	Mr David Newlands and Mrs Monique Newlands	8,973,000	4.34%
6	Prof. John D Rhodes	6,548,642	3.16%

Political and charitable contributions

No contributions were made for political or charitable purposes (2015: £nil).

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 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 Thursday 29 September 2016 at the offices of KPMG LLP, 1 Sovereign Square, Sovereign Street, 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, the Directors' report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' Report and the 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. As required by the AIM Rules of the London Stock Exchange 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.

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

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 they ought to have taken as a Director to make themselves 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
2 August 2016

Independent auditor's report to the members of Filtronic plc

We have audited the financial statements of Filtronic plc for the year ended 31 May 2016 set out on pages 31 to 63. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 29, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 May 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 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.

Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
2 August 2016

Consolidated income statement

for the year ended 31 May 2016

	Note	Group 2016 £000	Group 2015 £000
Revenue		**13,580**	17,524
Adjusted operating loss*		**(6,840)**	(8,136)
Amortisation of other intangibles		**-**	(2,418)
Capitalisation of development costs	15	**286**	-
Exceptional items	5	**(426)**	(491)
Operating loss	4	**(6,980)**	(11,045)
Finance costs	11	**(59)**	-
Loss before taxation		**(7,039)**	(11,045)
Taxation	12	**1,922**	537
Loss for the period		**(5,117)**	(10,508)
Basic and diluted loss per share	13	**(3.20p)**	(10.16p)

*Operating loss before amortisation of other intangibles, exceptional items and R&D development cost capitalisation/amortisation.

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.

Financials

Consolidated statement of comprehensive income

for the year ended 31 May 2016

	Note	Group 2016 £000	2015 £000
Loss for the period		**(5,117)**	(10,508)
Other comprehensive income			
Items that are or may be subsequently reclassified to profit and loss:			
Currency translation movement arising on consolidation	26	**(55)**	236
Total comprehensive income for the period		**(5,172)**	(10,272)

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 2016

	Note	Group 2016 £000	2015 £000
Non-current assets			
Goodwill and other intangibles	15	**3,648**	3,377
Property, plant and equipment	16	**1,230**	1,796
Deferred tax	17	**834**	-
		5,712	5,173
Current assets			
Inventories	18	**1,685**	1,646
Trade and other receivables	19	**8,960**	7,906
Cash and cash equivalents		**990**	1,087
		11,635	10,639
Total assets		**17,347**	15,812
Current liabilities			
Trade and other payables	20	**7,295**	6,577
Provisions	21	**161**	111
Deferred income	22	**460**	21
Interest bearing borrowings	35	**1,270**	320
		9,186	7,029
Non-current liabilities			
Deferred income	22	**32**	54
		32	54
Total liabilities		**9,218**	7,083
Net assets		**8,129**	8,729
Equity			
Share capital	24	**10,788**	10,688
Share premium	25	**10,640**	6,199
Translation reserve	26	**(255)**	(200)
Retained earnings	28	**(13,044)**	(7,958)
Total equity		**8,129**	8,729

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

Company number 2891064

Approved by the Board on 2 August 2016 and signed on its behalf by

Rob Smith

Chief Executive Officer

2 August 2016

Financials

Consolidated statement of changes in equity

for the year ended 31 May 2016

	Note	Group 2016 £000	Group 2015 £000
Opening total equity		**8,729**	16,899
Total comprehensive income for the period		**(5,172)**	(10,272)
New shares issued (net of issue costs)	24,25	**4,541**	2,026
Share-based payments	31	**31**	76
Closing total equity		**8,129**	8,729

Company statement of changes in equity

for the year ended 31 May 2016

	Note	Company 2016 £000	Company 2015 £000
Opening total equity		**18,636**	17,161
Total comprehensive income for the period		**(4,678)**	(538)
New shares issued (net of issue costs)	24,25	**4,541**	2,026
Share-based payments	31	**-**	(13)
Closing total equity		**18,499**	18,636

Consolidated cash flow statement

for the year ended 31 May 2016

	Note	Group 2016 £000	Group 2015 £000
Cash flows from operating activities			
Loss for the period		(5,117)	(10,508)
Taxation		(1,922)	(537)
Finance costs		59	-
Operating loss	34	(6,980)	(11,045)
Share-based payments		31	76
Loss on disposal of plant and equipment		76	50
Depreciation		655	1,045
Amortisation of intangibles		15	2,436
Movement in inventories		(25)	2,375
Movement in trade and other receivables		(175)	2,930
Movement in trade and other payables		603	(1,094)
Movement in provision		50	(222)
Change in deferred income including government grants		439	(169)
Tax received/(paid)		261	(62)
Net cash used in operating activities	34	(5,050)	(3,680)
Cash flows from investing activities			
Interest paid		(59)	-
Acquisition of intangible assets		-	(160)
Capitalisation of development costs		(286)	-
Acquisition of plant and equipment		(172)	(201)
Proceeds on sale of assets		36	219
Net cash used in investing activities	34	(481)	(142)
Cash flows from financing activities			
Proceeds from new shares issued (Net of issue costs)		4,541	2,026
Movement in interest bearing borrowings		950	320
Net cash from financing activities	34	5,491	2,346
Movement in cash and cash equivalents		(40)	(1,476)
Currency exchange movement		(57)	32
Opening cash and cash equivalents		1,087	2,531
Closing cash and cash equivalents	35	990	1,087

Company balance sheet

at 31 May 2016

	Note	Company 2016 £000	2015 £000
Non-current assets			
Investments in subsidiaries	14	**10,564**	10,564
Intangible assets	15	**127**	142
Property, plant and equipment	16	**38**	39
		10,729	10,745
Current assets			
Trade and other receivables	19	**13,039**	13,237
Cash and cash equivalents		**125**	225
		13,164	13,462
Total assets		**23,893**	24,207
Current liabilities	20		
Trade and other payables	21	**5,394**	5,561
Provision		**-**	10
Total liabilities		**5,394**	5,571
Net assets		**18,499**	18,636
Equity	24		
Share capital	25	**10,788**	10,688
Share premium	28	**10,640**	6,199
Retained earnings		**(2,929)**	1,749
Total equity		**18,499**	18,636

Company number 2891064

Approved by the Board on 2 August 2016 and signed on its behalf by

Rob Smith

Chief Executive Officer

2 August 2016

Company cash flow statement

for the year ended 31 May 2016

	Company	
	2016 £000	2015 £000
Cash flows from operating activities		
Loss for the period	(4,680)	(538)
Finance costs	3	-
Finance income	-	(207)
Operating loss	(4,677)	(745)
Depreciation	8	6
Amortisation of intangibles	15	18
Share-based payments	-	(13)
Movement in trade and other receivables	198	(188)
Movement in trade and other payables	(168)	(736)
Movement in provision	(10)	(215)
Net cash used in operating activities	(4,634)	(1,873)
Cash flows from investing activities		
Acquisition of plant and equipment	(7)	(45)
Acquisition of intangible assets	-	(160)
Net cash used in investing activities	(7)	(205)
Cash flows from financing activities		
New shares issued (net of issue costs)	4,541	2,026
Net cash from financing activities	4,541	2,026
(Decrease)/increase in cash and cash equivalents	(100)	(52)
Opening cash and cash equivalents	225	277
Closing cash and cash equivalents	125	225

Notes to the financial statements

for the year ended 31 May 2016

1 Accounting policies

Reporting entity

Filtronic plc is a Company registered in England and Wales, domiciled in the United Kingdom, and is listed on AIM 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 2018, in order to consider whether it is appropriate that the Group continues to adopt the going concern assumption.

The accounts have been prepared 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.

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.

1 Accounting policies (continued)

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 in volume production, 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 credit was made to equity equal to the share-based payment charge in the period.

Exceptional items

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

Business combinations

Business combinations are accounted for by applying the acquisition method.

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

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

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

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

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

Notes to the financial statements

for the year ended 31 May 2016

1 Accounting policies (continued)

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.

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 another 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.

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.

1 Accounting policies (continued)

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.

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.

Notes to the financial statements

for the year ended 31 May 2016

1 Accounting policies (continued)

Dilapidations and onerous leases

A provision for dilapidations and onerous leases is recognised in the balance sheet on a lease by lease basis and 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.

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.

Accounting Developments

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:

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19);
- Annual Improvements to IFRSs 2010 - 2012 Cycle; and
- Annual Improvements to IFRSs 2011 - 2013 Cycle.

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 June 2016. The Group has elected not to adopt early these standards which are described below:

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);
- Equity Method in Separate Financial Statements (Amendments to IAS 27);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);
- Annual Improvements to IFRSs 2012 - 2014 Cycle; and
- Disclosure Initiative (Amendments to IAS 1).

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 June 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.

IFRS 16 - "Leases" has been published which will be mandatory for the Group's accounting period beginning on or after 1 June 2019. 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.

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.

The period over which development costs are amortised are reviewed on a case by case basis in line with the expected product life.

Notes to the financial statements

for the year ended 31 May 2016

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 percent each and in aggregate 74 percent of revenue. This is split as follows:

- Customer A (Filtronic Wireless) — 29%
- Customer B (Filtronic Broadband) — 22%
- Customer C (Filtronic Wireless) — 13%
- Customer D (Filtronic Wireless and Filtronic Broadband) — 10%

The Group operates in two trading business segments:

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

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.

	Filtronic Broadband		Filtronic Wireless		Central Services		Total	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Revenue	**4,618**	7,241	**8,962**	10,283	**-**	-	**13,580**	17,524
Depreciation	**330**	482	**316**	557	**9**	6	**655**	1,045
Adjusted operating loss*	**(1,723)**	(1,648)	**(4,514)**	(5,697)	**(603)**	(791)	**(6,840)**	(8,136)
Amortisation of other intangibles	**-**	-	**-**	-	**-**	-	**-**	(2,418)
Capitalisation of development costs	**100**	-	**186**	-	**-**	-	**286**	-
Exceptional Items	**-**	(256)	**(209)**	(180)	**(217)**	(55)	**(426)**	(491)
Reportable segment operating loss	**(1,623)**	(1,904)	**(4,537)**	(5,877)	**(820)**	(846)	**(6,980)**	(11,045)
Finance costs	**-**	-	**(59)**	-	**-**	-	**(59)**	-
Loss before taxation	**(1,623)**	(1,904)	**(4,596)**	(5,877)	**(820)**	(846)	**(7,039)**	(11,045)
Reportable segment assets	**2,475**	4,883	**11,306**	7,251	**15,601**	11,959	**29,382**	24,093
Capital expenditure	**58**	5	**107**	151	**7**	45	**172**	201
Reportable segment liabilities	**8,778**	9,877	**14,546**	7,381	**480**	657	**23,804**	17,915

*Operating loss before amortisation of other intangibles, exceptional items and R&D development cost capitalisation/amortisation.

3 Segmental analysis (continued)

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

	2016 £000	2015 £000
Depreciation and amortisation		
Reportable segment totals	655	1,045
Amortisation of intangibles	15	2,436
Consolidated depreciation and amortisation	670	3,481
Loss before taxation		
Loss before taxation for reportable segments	(7,039)	(8,627)
Group/unallocated amortisation of intangibles	-	(2,418)
Consolidated loss before taxation	(7,039)	(11,045)
Assets		
Total assets for reportable segments	29,382	24,093
Intercompany	(14,586)	(10,832)
Group/unallocated	2,551	2,551
Consolidated total assets	17,347	15,812
Liabilities		
Total liabilities for reportable segments	23,804	17,915
Intercompany	(14,586)	(10,832)
Consolidated total liabilities	9,218	7,083

Geographical information

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

Revenue by destination	2016 £000	2015 £000
United Kingdom	188	1,772
Europe	5,606	4,412
Americas	4,132	7,727
Rest of the world	3,654	3,613
	13,580	17,524

Split of non-current assets by location	2016 £000	2015 £000
United Kingdom	4,519	3,772
Europe	94	131
Americas	1,094	1,095
Rest of the world	5	175
	5,712	5,173

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 2016

4 Operating loss

	2016 £000	2015 £000
Revenue	**13,580**	17,524
Other operating income	**(40)**	(69)
Raw materials and consumables	**9,936**	11,478
Wages and salaries	**5,566**	7,345
Social security costs	**670**	830
Pension costs	**363**	453
Share-based payments	**31**	76
Exceptional redundancy and resignation costs	**217**	370
Staff costs	**6,847**	9,074
Amortisation of intangibles	**15**	2,436
Depreciation	**655**	1,045
Depreciation and amortisation	**670**	3,481
Other operating charges	**3,147**	4,605
Operating costs	**20,560**	28,569
Operating loss	**(6,980)**	(11,045)

The operating loss is stated after the exceptional items in note 5. £217,000 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:

	2016 £000	2015 £000
Listing on AIM on the London Stock Exchange	**209**	-
Redundancy costs	**217**	244
Director resignation	**-**	131
Closure of Filtronic Wireless California operation	**-**	67
Filtronic Broadband relocation	**-**	98
Dilapidation of premises of discontinued operations	**-**	(75)
Electrical damage	**-**	26
	426	491

The Company delisted from the Official List on the Main Market of the London Stock Exchange on 16 November 2015 and moved its listing to AIM on the London Stock Exchange. The cost of doing this including professional advisors was £209,000.

The Filtronic Wireless business completed a restructure of its operational cost base to deliver annualised cost savings of over £1.0m. The cost to implement this was £217,000.

6 Operating items

	2016 £000	2015 £000
Operating loss is stated after charging/(crediting):		
Research and development costs before capitalisation of development costs	**4,294**	6,466
Development costs capitalised	**(286)**	-
Operating lease rentals	**381**	478
Foreign exchange gain	**(16)**	(108)

7 Auditor's remuneration

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

	2016 £000	2015 £000
Company auditor:		
Audit of the Group and Company financial statements	**11**	11
Company auditor and their associates:		
Audit of subsidiaries' financial statements pursuant to legislation	**40**	47
Other services pursuant to such legislation	**2**	5
Taxation services	**-**	11
Other services	**42**	2
	95	76

£40,000 was paid to KPMG LLP in the year for professional services relating to the move to AIM on the London Stock Exchange.

8 Employees

The average number of employees comprised:

	2016 Number	2015 Number
Manufacturing	**56**	68
Research and development	**51**	80
Sales	**4**	5
Administration	**17**	17
	128	170

The Directors are related parties.

Notes to the financial statements

for the year ended 31 May 2016

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 24 to 27. The compensation of the Directors was:

	2016 £000	2015 £000
Salary or fees	307	501
Loss of office	-	111
Bonuses	50	50
Benefits	13	18
Total remuneration excluding pension contributions and share-based payments	370	680
Pension contributions	13	12
Share-based payments	-	-
	383	692

10 Related party transactions

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 (2015: £432,000) and a royalty charge of 1 percent of Filtronic Wireless sales to the Filtronic Wireless business of £90,000 (2015: £102,000). 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 19 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 24 to 27.

11 Finance costs

	2016 £000	2015 £000
Interest costs	59	-
	59	-

12 Taxation

Recognised in the income statement	2016 £000	2015 £000
Current tax credit		
Overseas taxation in the period	40	136
Adjustment in respect of prior year — R&D tax credit	(1,128)	(673)
Total current tax credit	(1,088)	(537)
Deferred tax credit		
Release of deferred tax liability	-	(485)
(Origination) and reversal of temporary differences	(834)	485
Total deferred tax credit	(834)	-
Income tax credit	(1,922)	(537)

The reconciliation of the effective tax rate is as follows:

	2016 £000	2015 £000
Loss before taxation	(7,039)	(11,045)

		2016 £000		2015 £000
Loss before taxation multiplied by standard rate of corporation tax in the UK	(20%)	(1,408)	(21%)	(2,300)
Disallowable items	(1%)	(57)	2%	245
Income not taxable	1%	64	1%	167
Deferred tax not recognised	17%	1,181	16%	1,722
Impact of tax rate change on deferred tax	-	-	1%	19
Adjustment in respect of prior year R&D tax credit	(16%)	(1,128)	(6%)	(673)
Foreign tax not at UK rate	(4%)	(275)	(2%)	(202)
Recognition of deferred tax asset from prior year	(4%)	(299)	-	-
De-recognition of deferred tax asset	-	-	4%	485
Taxation	(27%)	(1,922)	(5%)	(537)

The main rate of UK corporation tax for the full financial year was 20 percent. This will reduce to 19 percent from 1 April 2017, and to 18 percent from 1 April 2020. The deferred tax assets recognised in the year have been calculated at the rates of their expected use.

13 Loss per share

	Group	
	2016 £000	2015 £000
Loss for the period	(5,117)	(10,508)
	000	000
Basic weighted average number of shares	160,070	103,417
Basic and diluted loss per share	(3.20p)	(10.16p)

Financials

Notes to the financial statements

for the year ended 31 May 2016

14 Investments in subsidiaries

	Company investments in subsidiaries £000
Cost	
At 1 June 2014, 31 May 2015 and 31 May 2016	**21,110**
Impairment	
At 1 June 2014, 31 May 2015 and 31 May 2016	**10,546**
Carrying amount at 1 June 2014, 31 May 2015 and 31 May 2016	**10,564**

The Company's subsidiaries are related parties.

The subsidiaries at 31 May 2016, 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
Owned by Filtronic Holdings UK Limited:				
Filtronic Wireless AB	Sweden	SEK1 ordinary shares	100%	Design and manufacture of antenna products for telecommunication systems
Owned by Isotek (Holdings) Limited:				
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
Owned by Filtronic Wireless Limited:				
Isotek Hong Kong Holdings Limited	Hong Kong	HK$1 ordinary shares	100%	Holding company
Owned by Isotek Hong Kong Holdings Limited:				
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	Development costs £000	Total £000
Cost					
At 1 June 2014	3,235	10,884	-	-	14,119
Additions	-	-	160	-	160
At 31 May 2015	3,235	10,884	160	-	14,279
Additions	-	-	-	286	286
At 31 May 2016	**3,235**	**10,884**	**160**	**286**	**14,565**
Amortisation					
At 1 June 2014	-	8,466	-	-	8,466
Provided in year	-	2,418	18	-	2,436
At 31 May 2015	-	10,884	18	-	10,902
Provided in year	-	-	15	-	15
At 31 May 2016	**-**	**10,884**	**33**	**-**	**10,917**
Carrying amount at 1 June 2014	3,235	2,418	-	-	5,653
Carrying amount at 31 May 2015	3,235	-	142	-	3,377
Carrying amount at 31 May 2016	**3,235**	**-**	**127**	**286**	**3,648**

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

Goodwill is allocated to the Filtronic 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 2018 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 2018. A revenue growth factor of 5% was applied to the projections together with cost inflation of 3%. A perpetuity factor has been applied based on the year to 31 May 2021;
- post tax discount rate of 12% (2015:12%) was applied in determining the recoverable amount of the unit, being the estimated weighted average cost of capital for the Filtronic 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") licence procured during the year to enable the use of RETs in the antenna products.

The accounting policy for intangible assets is set out in note 1. Development costs have been recognised in both Filtronic Wireless and Filtronic Broadband relating to ultra wide band antennas and E-band developments respectively.

Notes to the financial statements

for the year ended 31 May 2016

16 Property, plant and equipment

	Group plant and equipment £000	Company plant and equipment £000
Cost		
At 1 June 2014	9,738	-
Additions	201	45
Disposals	(1,719)	-
Currency translation movement	104	-
At 31 May 2015	8,324	45
Additions	172	7
Disposals	(1,118)	-
Currency translation movement	70	-
At 31 May 2016	**7,448**	**52**
Depreciation and impairment		
At 1 June 2014	6,873	-
Depreciation	1,045	6
Disposals	(1,452)	-
Currency translation movement	62	-
At 31 May 2015	6,528	6
Depreciation	655	8
Disposals	(1,008)	-
Currency translation movement	43	-
At 31 May 2016	**6,218**	**14**
Carrying amount at 1 June 2014	2,865	-
Carrying amount at 31 May 2015	1,796	39
Carrying amount at 31 May 2016	**1,230**	**38**

17 Deferred tax

	Group	
Deferred tax assets	**2016 £000**	2015 £000
Opening balance	**-**	485
Tax losses derecognised	**-**	(485)
Tax losses recognised	**834**	-
Effect of change in UK corporation tax rate	**-**	-
Closing balance	**834**	-

The deferred tax asset from the Filtronic Wireless UK business has been recognised as the Directors consider that the Filtronic Wireless UK legal entity will return to profitability in the next year.

17 Deferred tax (continued)

Deferred tax assets which have not been recognised:	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Depreciation in advance of capital allowances	**2,109**	1,806	**455**	455
Tax losses carried forward	**11,969**	12,838	**9,161**	10,515
Share options deferment	**47**	-	**47**	-
	14,125	14,644	**9,663**	10,970

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.

Deferred tax liability	Group 2016 £000	Group 2015 £000
Opening balance	**-**	485
Release to income statement	**-**	(485)
Closing balance	**-**	-

18 Inventories

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Raw materials	**3,158**	2,872	**-**	-
Work in progress	**234**	350	**-**	-
Finished goods	**316**	412	**-**	-
	3,708	3,634	**-**	-
Inventory provision	**(2,023)**	(1,988)	**-**	-
Inventories are stated net of provision	**1,685**	1,646	**-**	-

The amount charged to the income statement in the year in respect of write downs of inventories is £636,000 (2015: £1,190,000). The amount credited to the income statement in the year in respect of reversals of write downs of inventories is £nil (2015: £200,000).

19 Trade and other receivables

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Trade receivables	**7,457**	6,456	**-**	-
Group receivables	**-**	-	**12,996**	13,200
Other receivables and prepayments	**1,503**	1,450	**43**	37
	8,960	7,906	**13,039**	13,237

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

Notes to the financial statements

for the year ended 31 May 2016

20 Trade and other payables

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Trade payables	**6,051**	5,381	**113**	19
Group payables	**-**	-	**4,914**	4,914
Other payables and accruals	**1,244**	1,196	**367**	628
	7,295	6,577	**5,394**	5,561

21 Provisions

	Group		Company	
Warranty provision	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Opening balance	**101**	108	**-**	-
Used during the year	**(4)**	(12)	**-**	-
Released unused during the year	**(31)**	(35)	**-**	-
Charge for the year	**95**	40	**-**	-
Closing balance	**161**	101	**-**	-

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	
Dilapidation provision	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Opening balance	**10**	225	**10**	225
Used during the year	**-**	(140)	**-**	(140)
Released unused during the year	**(10)**	(75)	**(10)**	(75)
Charge for the year	**-**	-	**-**	-
Closing balance	**-**	10	**-**	10

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	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Defined contribution schemes	**361**	453	**25**	20

24 Share capital

	Group and Company Ordinary shares of 0.1p each	
	Number	£000
At 1 June 2014	97,160,986	9,716
Shares issued in year	9,716,000	972
At 1 June 2015	106,876,986	10,688
Shares issued in year	100,033,160	100
At 31 May 2016	**206,910,146**	10,788

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.

On 16 November 2015, the Company successfully moved from the Official List on the Main Market of the London Stock Exchange to AIM on the London Stock Exchange. The primary purpose of this move was to undertake a share placing of 90,000,000 new shares at 5.0p per share generating £4.5m before issue costs. This placing successfully concluded on the same date with issue costs charged to the share premium account of £321,000. The net proceeds from the new shares issued was £4,179,000.

In order to execute this, the Company completed a capital reorganisation by reducing the nominal value attached to the existing shares prior to the placing. This resulted in the nominal value of each existing share reducing from 10p per share to 0.1p per share with each share also carrying a deferred share with a value of 9.9p. The deferred shares have no voting rights.

An announcement was also made that the Company intended to allow all of the shareholders on the share register at 16 November 2015 to take part in an open offer, subject to shareholder approval, with a further issue of up to 19,999,373 shares. On 16 December 2015, shareholders voted in favour of the resolutions relating to the open offer. This resulted in a further issue of 10,033,160 shares at 5.0p per share. This generated a further £500,000 before issue costs of £138,000 with the payment received into the Company's bank account in December 2015.

25 Share premium

	Group and Company
At 1 June 2014	5,145
Premium on share issue	1,054
At 1 June 2015	6,199
Premium on share issue	4,441
At 31 May 2016	**10,640**

26 Translation reserve

	Group £000
At 1 June 2014	(436)
Currency translation movement arising on consolidation	236
At 1 June 2015	(200)
Currency translation movement arising on consolidation	(55)
At 31 May 2016	**(255)**

Notes to the financial statements

for the year ended 31 May 2016

27 Dividends

The Directors are not proposing to pay a dividend for the year ended 31 May 2016 (2015: nil).

28 Retained earnings

	Group £000	Company £000
At 1 June 2014	2,474	2,300
Loss for the period	(10,508)	(538)
Share-based payments	76	(13)
At 31 May 2015	(7,958)	1,749
Loss for the period	(5,117)	(4,678)
Share-based payments	31	-
At 31 May 2016	**(13,044)**	**(2,929)**

29 Share options

There are six sharesave plans that have been offered to employees at the date of this report. The first three 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 for the first five schemes was the middle market quotation of Filtronic plc's ordinary shares as derived from the Official List of London Stock Exchange on the dealing day immediately prior to the plan offer date. The sixth scheme had an exercise price of the middle market quotation of Filtronic plc's ordinary shares as derived from AIM on the dealing day immediately prior to the plan offer date.

Sharesave Plan - Scheme 3

	Weighted average exercise price 2016	**Number of options 2016**	Weighted average exercise price 2015	Number of options 2015
Outstanding at the beginning of the period	**22.6p**	**763,313**	22.6p	883,258
Exercised during the period	**22.6p**	**-**	22.6p	-
Cancelled during the period	**22.6p**	**(763,313)**	22.6p	(119,945)
Outstanding at the end of the period	**22.6p**	**-**	22.6p	763,313
Exercisable at the end of the period	**22.6p**	**-**	22.6p	763,313

The third sharesave scheme was offered to employees in April 2012 and has now closed.

Sharesave Plan - Scheme 4	**Weighted average exercise price 2016**	**Number of options 2016**	Weighted average exercise price 2015	Number of options 2015
Outstanding at the beginning of the period	**56.4p**	**64,652**	56.4p	147,305
Exercised during the period	**56.4p**	**-**	56.4p	-
Cancelled during the period	**56.4p**	**(41,740)**	56.4p	(82,653)
Outstanding at the end of the period	**56.4p**	**22,912**	56.4p	64,652
Exercisable at the end of the period	**56.4p**	**-**	56.4p	7,786

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

The options outstanding at 31 May 2016 for Scheme 4 have a weighted average remaining contractual life of 0.5 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.

29 Share options (continued)

Sharesave Plan - Scheme 5

	Weighted average exercise price 2016	Number of options 2016	Weighted average exercise price 2015	Number of options 2015
Outstanding at the beginning of the period	**31.0p**	**796,290**	31.0p	-
Granted during the period	**31.0p**	**-**	31.0p	1,088,801
Cancelled during the period	**31.0p**	**(712,101)**	31.0p	(292,511)
Outstanding at the end of the period	**31.0p**	**84,189**	31.0p	796,290
Exercisable at the end of the period	**31.0p**	**-**	31.0p	75,482

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

The options outstanding at 31 May 2016 for Scheme 5 have a weighted average remaining contractual life of 1.5 years. The share options granted during the year to May 2016 have an exercise price of 31p and have an exercise period from 1 July to 31 December 2017.

Sharesave Plan - Scheme 6

A sixth sharesave scheme was offered to employees in June 2016. These share options have an exercise price of 5.2p and have an exercise period from 1 June to 30 November 2019.

Management incentive plans

The options granted in the year to Directors and key management and staff have specific performance targets attached to them. The target requires that the average mid-market closing price of a share over any period of forty consecutive business days between the date of grant and the third anniversary of the date of grant is greater than 20 pence per share. Directors can only exercise their shares three years after grant after the target has been met. All other staff can exercise their shares in three equal tranches after each year if the performance target has been met during the relevant financial year. 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 London Stock Exchange or AIM depending on the timing of the award and the market Filtronic traded on the dealing day immediately prior to the plan offer date.

The following options under this scheme were outstanding at 31 May 2016:

Ordinary shares of 0.1p	Date granted	Earliest date exercisable	Latest date exercisable	Exercise price
23,903	01/08/2011	01/08/2014	01/08/2021	23.5p
132,721	01/11/2011	29/10/2014	29/10/2021	18.1p
6,350,000	01/03/2016	01/03/2017	29/02/2026	5.4p
500,000	11/04/2016	11/04/2017	10/04/2026	
7,006,624				

The weighted average price of options of the outstanding options under this scheme at 31 May 2016 was 5.9p

	Number of share options 2016	Number of share options 2015
Outstanding at the beginning of the period	**745,072**	406,205
Granted during the period	**7,400,000**	450,000
Cancelled during the period	**(1,138,448)**	(111,133)
Outstanding at the end of the period	**7,006,624**	745,072
Exercisable at the end of the period	**156,624**	345,072

Notes to the financial statements

for the year ended 31 May 2016

30 Share awards

	Number of share awards	
	2016 £000	2015 £000
Performance share plan		
Outstanding at the beginning of the period	**-**	375,648
Granted during the year	**-**	-
Cancelled during the year	**-**	(375,648)
Outstanding at the end of the period	**-**	-

No new share awards were granted in the year.

31 Share-based payments

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Share options expense	**40**	98	**9**	9
Share awards expense	**-**	(22)	**-**	(22)
Non-vesting LTIP share award	**(9)**	-	**(9)**	-
	31	76	**-**	(13)

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	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Number of share options granted	**7,400,000**	-	**1,850,000**	-
Weighted average share price	**5.4p**	31.0p	**5.4p**	31.0p
Expected volatility	**50%**	60%	**50%**	60%
Expected life	**3.0 years**	3.0 years	**3.0 years**	3.0 years
Risk free interest rate	**0.5%**	3%	**0.5%**	3%
Weighted average fair value	**1.0p**	10p	**1.0p**	10p

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	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Less than one year	**354**	378	**-**	-
Between one and five years	**688**	931	**-**	-
More than five years	**111**	230	**-**	-
	1,153	1,539	**-**	-

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.

The operating lease for a facility in Shrewsbury, UK was transferred to a third party during the year as part of our cost restructuring exercise removing the lease commitment from the Group.

33 Capital expenditure commitments

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Capital expenditure contracted for at the balance sheet date but not provided in the financial statements	**42**	1	**4**	-

34 Note to the consolidated cash flow statement

	Group	
	2016 £000	2015 £000
Operating loss	**(6,980)**	(11,045)
Net cash used in operating activities	**(5,050)**	(3,680)
Net cash used in investing activities	**(481)**	(142)
Net cash from financing activities	**5,491**	2,346

Notes to the financial statements

for the year ended 31 May 2016

35 Analysis of net (debt)/funds

	1 June 2015 £000	Cash flow £000	Other changes £000	**31 May 2016 £000**
Cash and cash equivalents	1,087	(40)	(57)	**990**
Interest bearing borrowings	(320)	(950)	-	**(1,270)**
	767	(990)	(57)	**(280)**

Reconciliation of cash flow to movement in net (debt)/funds

	2016 £000	2015 £000
Movement in cash and cash equivalents	**(40)**	(1,476)
Cash flow from increase in debt financing	**(950)**	(320)
Effect of exchange rate fluctuations	**(57)**	32
Movement in net (debt)/funds	**(1,047)**	(1,764)
Net funds at 1 June 2014	**767**	2,531
Net (debt)/funds at 31 May 2015	**(280)**	767

The Group has invoice discounting facilities in both the UK and US, enabling it to borrow money against the UK and US debtor books.

$1,066,000 is secured against the US debtors in Filtronic Wireless Inc as per the Faunus Group International Inc (FGI) sales invoicing agreement.

The £535,000 is secured against the UK debtors in Filtronic Broadband Limited and Filtronic Wireless Limited as per the Barclays sales financing agreement.

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 has net debt of £280,000 whilst the Company has net funds of £125,000. The Group has access to a £4.0m sales invoicing facility with Barclays Bank having successfully secured a temporary increase from £2.0m to assist with working capital requirements for the ramp of the antenna programme and a $3.5m sales invoice facility with Faunus Group International (FGI).

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 £4.0m reducing back to £2.0m in October 2016.

The US subsidiary, Filtronic Wireless Inc, has a sales invoice finance facility with Faunus Group International Inc (FGI Finance). This facility allows the Group to borrow 80% of the US entity's debtors up to $3.5m.

The amount of cash available to the Group through sales invoice finance facilities along with the ramp in sales results in a low liquidity risk.

36 Financial instruments (continued)

Credit risk

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

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Cash and cash equivalents	990	1,087	125	225
Trade and other receivables	8,960	7,906	13,039	13,237
	9,950	8,993	13,164	13,462

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

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Barclays Bank PLC	196	538	125	225
China CITIC Bank International Limited	47	41	-	-
Bank of America Corporation	745	496	-	-
The Bank of Delmarva	-	11	-	-
Skandinaviska Enskilda Banken AB	2	1	-	-
	990	1,087	125	225

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

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

The Company has no trade receivables.

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

	Group	
	2016 £000	2015 £000
Customer one	3,966	1,537
Customer two	834	1,424
Customer three	657	698
Other customers	2,000	2,797
	7,457	6,456

Notes to the financial statements

for the year ended 31 May 2016

36 Financial instruments (continued)

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

	Group	
	2016 £000	2015 £000
Not past due	**7,298**	5,530
Past due less than three months	**133**	633
Past due more than three months	**26**	293
	7,457	6,456

No trade receivables have been provided for in either 2016 or 2015.

Interest rate risk

Cash is generally held on short term bank deposits which earns interest at variable money market deposit rates. At 31 May 2016 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)

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 the US dollar.

36 Financial instruments (continued)

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

	Group							
	2016				2015			
	SEK £000	EUR £000	RMB £000	USD £000	SEK £000	EUR £000	RMB £000	USD £000
Cash and cash equivalents	2	-	47	759	1	80	41	647
Interest bearing borrowings	-	-	-	(1,275)	-	-	-	(137)
Trade receivables	-	9	834	6,559	-	15	630	5,286
Trade payables	-	(152)	(551)	(4,889)	-	(367)	(659)	(3,727)
Net exposure	2	(143)	330	1,154	1	(272)	12	2,069

The sensitivity of the Group operating profit to the US dollar to sterling exchange rate, assuming all other variables remain constant, is as follows:

If the US dollar had been one percent stronger/weaker against sterling throughout the year ended 31 May 2016 then the Group operating profit would have been £19,000 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 £4.0m on the UK and $3.5m in the US. At 31 May 2016 the Group had net debt of £280,000 and the Company had a cash balance of £125,000. The Group and Company have sufficient cash to cover working capital requirements and capital expenditure plans.

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

37 Forward-looking statements

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

Shareholder information

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

Rob Smith — Chief Executive Officer

Michael Tyerman — Finance Director

Reg Gott — Non-executive Chairman

Michael Roller — Non-executive Director

Company Secretary
Maura Moynihan

Company number
2891064

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Barclays Bank PLC
10 Market Street
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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 Thursday, 29 September 2016 at the offices of KPMG LLP, 1 Sovereign Square, Sovereign Street, Leeds LS1 4DA.

Registrars
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, or call 0871 664 0300 (UK calls cost 10p per minute plus network extras). From overseas: +44 371 664 0300. Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays. Alternatively, you can email shareholderenquiries@capita.co.uk

Filtronic website
Shareholders are encouraged to visit our website: www.filtronic.com which has more information about the Company.