Filtronic plc

Annual Report and Accounts 2017

Stock Code: FTC

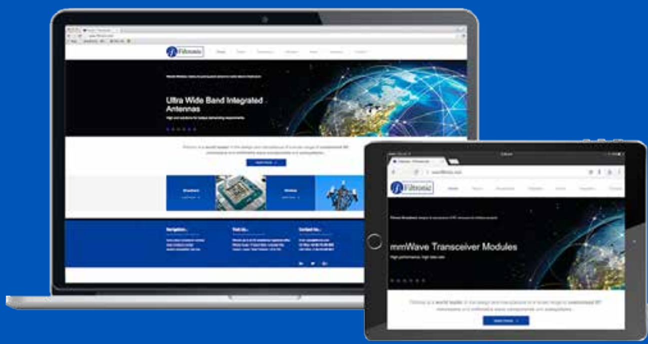
www.filtronic.com

Welcome to Filtronic plc

Filtronic plc is a leader in the design and manufacture of a specialised 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 related defence applications.

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 comprise two separately reported trading businesses: Filtronic Wireless and Filtronic Broadband (which has been transitioned from the legacy point-to-point 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 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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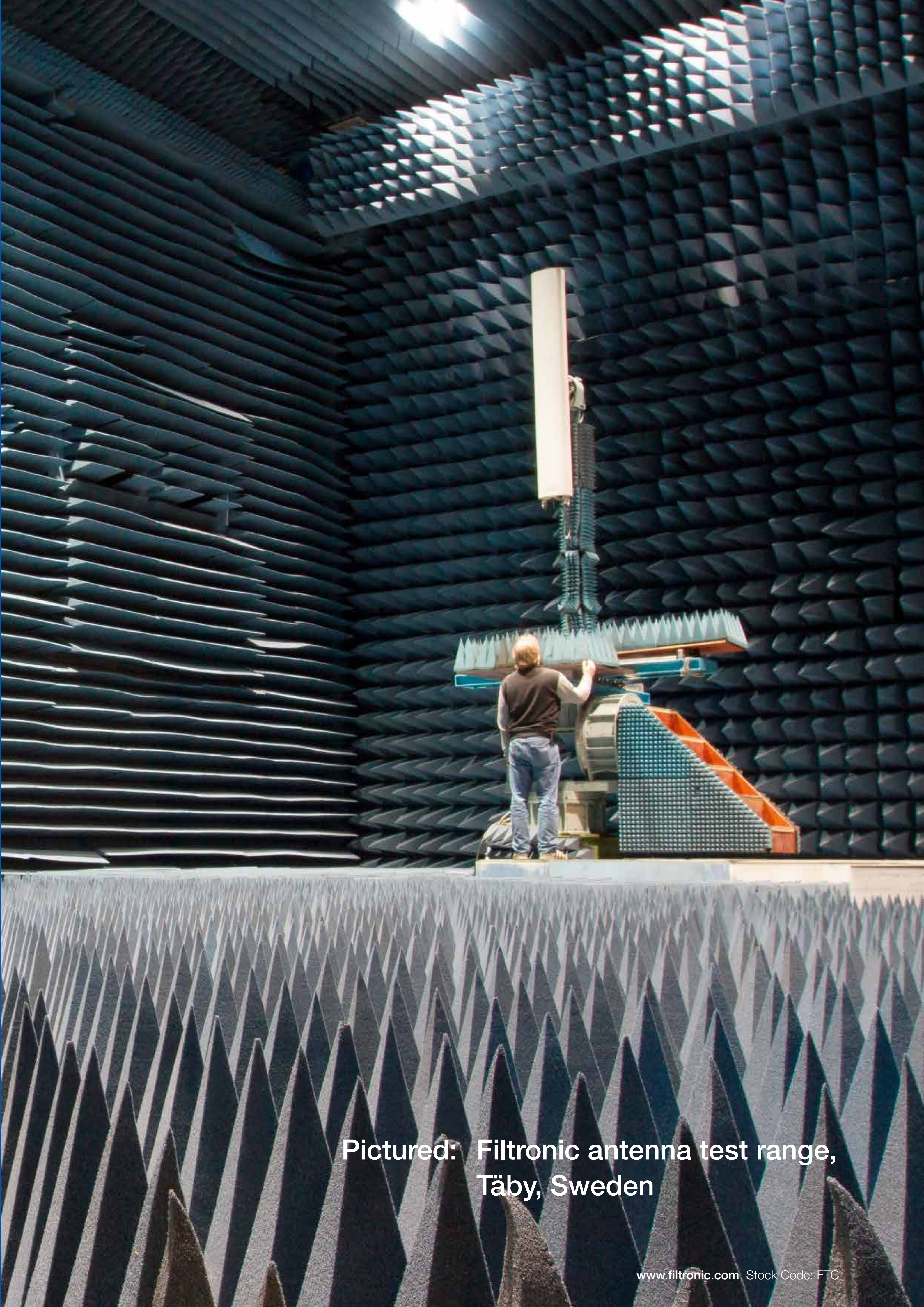
Objective and strategy

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
3GPP:	The 3rd Generation Partnership Project
4G:	4th generation mobile networks
5G:	5th generation mobile networks
CAGR:	Compound average growth rate
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
EMEA:	Europe, the Middle East and Africa.
ExaByte:	One quintillion bytes
Gbps:	Gigabit per second
GHz:	Gigahertz 10^9 Hertz
Gigabit:	10^9 bits
GPS:	Global Positioning System
GSM:	Global System for Mobile communications
HSPA:	High Speed Packet Access
Hz:	The international standard symbol forHertz, the unit of frequency
IoT:	Internet of things
LTE:	Long Term Evolution
Mbps:	Megabit per second
MCP:	Multi-chip package
MHz:	10^6 Hertz
MMIC:	Monolithic Microwave Integrated Circuit
mmWave:	Millimetre-wave
MNO:	Mobile network operator
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.
PIM:	Passive Intermodulation
QAM:	Quadratic Amplitude Modulation
RAN:	Radio Access Network
RET:	Remote Electrical Tilt
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
Wi-Fi:	Technology for wireless local area networking with devices based on the IEEE 802.11 standard.



Pictured: Filtronic antenna test range, Täby, Sweden

Strategic report

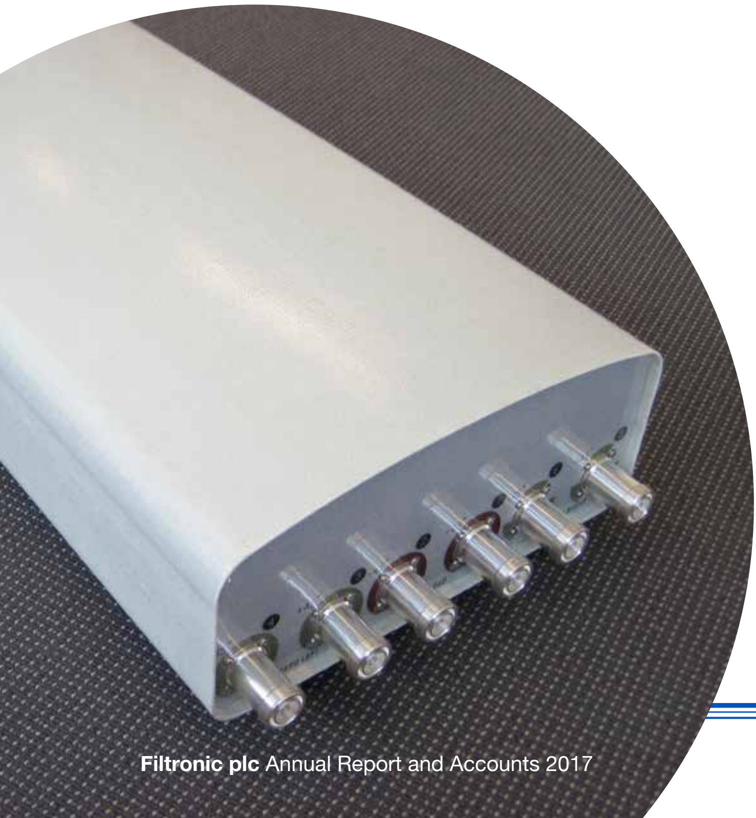
Financial highlights

	2017	2016
Sales revenue	£35.4m	£13.6m
Adjusted operating profit/(loss)*	£1.8m	(£6.8m)
Operating profit/(loss)	£1.7m	(£7.0m)
Profit/(loss) before taxation	£2.2m	(£7.0m)
Basic earnings/(loss) per share	1.51p	(3.20p)
Diluted earnings/(loss) per share	1.49p	(3.20p)
Net cash/(debt) balance as at 31 May	£2.6m	(£0.3m)
Cash inflow/(outflow) from operating activities	£3.9m	(£5.0m)

*Operating profit/(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

- Considerable progress made with revenues increasing by 160 percent year-on-year to £35.4m, returning the Group to profitability.
- Successfully fulfilled the large order for ultra wide band antennas from a world leading mobile telecommunications infrastructure OEM, demonstrating our ability to introduce new products and rapidly ramp to volume production.
- Strong demand for filter products to mobile telecommunications infrastructure and public safety communications markets in the year expected to continue into FY2018.
- Investment in the sales and marketing teams across EMEA and the US resulting in a growing opportunity pipeline.
- Major contract win for Filtronic Broadband to a tier 1 European defence equipment supplier to manufacture their advanced radar transmit receive modules, broadening the customer base and markets we serve.
- Encouraging customer engagement in a broad range of markets, including major Silicon Valley technology companies, who see the value in our mmWave technology.



Pictured: Filtronic Ultra Wide Band Antenna

Chairman's statement

Dear fellow shareholder

Welcome to the Filtronic plc Annual Report for the year ended 31 May 2017.

The year under review was one of considerable progress as the Group increased revenue and returned to profitability. The Board is very pleased with the progress made to date with the improved trading being a direct result of the more focussed strategy and reduced cost base that have been implemented over the past two financial years.

The success in the year was initially down to sales of our ultra wide band integrated antennas to a tier 1 telecoms customer backed up by a growth in demand for a broader range of filter products across the telecommunications and public safety markets.

The markets we serve and the technologies we offer are changing rapidly. Product lifecycles are compressing and this means that we are constantly refining our product and operating strategies to adapt to the evolving environment. To successfully develop the business, we recognise that we must broaden our customer base, enhance our product offerings and expand the market space we serve. With an improved balance sheet, we have been able to invest in these areas more than in recent years and we now have an exciting pipeline of new products and customer opportunities in a broader spread of market sectors.

Financial Performance Summary

Group financial performance for the year ended ahead of our initial expectations with sales of £35.4m (2016: £13.6m), an operating profit of £1.7m (2016: £7.0m loss) and an adjusted operating profit of £1.8m (2016: £6.8m adjusted operating loss). The consolidated income statement on page 30 sets out the basis of calculation of the adjusted operating profit.

Filtronic Wireless business revenue was £30.5m (2016: £9.0m) with an operating profit of £3.5m (2016: £4.5m operating loss) and an adjusted operating profit of £3.6m (2016: £4.5m adjusted operating loss).

Filtronic Broadband business revenue was £4.9m (2016: £4.6m) with an operating loss of £0.9m (2016: £1.6m operating loss) and an adjusted operating loss of £0.9m (2016: £1.7m adjusted operating loss).

The Group had net cash of £2.6m at the end of the year (2016: £0.3m net debt). The cash generation in the year was a direct result of the improved trading performance. The Group maintains an invoice discounting facility in the UK with Barclays Bank plc of £3.0m that was undrawn at the year-end and through the year had a facility of $3.5m with Faunus Group International Inc. (FGI). However, the Group decided to terminate the FGI facility in May 2017 as the cost of the facility and its terms no longer met the business' requirements. We are currently reviewing our finance needs in the US with alternative debt providers to secure facilities should we need them that more closely match our needs.

Dividend

No dividend is proposed for the year (2016: £nil). The Board periodically reviews its dividend policy and concluded that, whilst cash reserves had increased substantially through the year, shareholders interests would be better served by retaining the cash to fund our working capital and further investment plans than by distributing cash at this time.

Outlook

The progress made in FY2017 has demonstrated the capability of Filtronic to grow and deliver profit. However, the growth achieved has been with a concentrated number of customers and with relatively few products. Notwithstanding the growing opportunity and product pipeline we continue to remind shareholders that until there has been a further widening of the customer base, growth will continue to be lumpy and difficult to forecast in the short term, we also note that our major telecoms OEM customers have downgraded their projections for the current financial year. This underscores the importance for Filtronic to continue to reduce dependence on these customers and to seek opportunities in other markets.

We are encouraged by the breadth of opportunities being generated and remind investors that the substantial multi-year contract win of a defence related programme underpins Filtronic Broadband business revenues for several years. Consequently, the Board continues to have a positive outlook for the longer-term prospects for the Group.

The terms and impact of "Brexit" remain unclear but the global nature of our trade should provide a good degree of shelter from the currently anticipated major changes that will likely flow from the UK leaving the European Union.

Finally, I would like to thank our employees for all their hard work over the year in delivering a substantially improved performance and to thank our shareholders and bankers for their continued support.

Reg Gott
Chairman
31 July 2017

Chief Executive's review

FY2017 was a strong recovery year for Filtronic as the Group increased sales revenues by 160 percent year-on-year and returned to profitability. The financial results stem from our strategic focus on servicing key markets with technically innovative products and excellence in execution to ensure we meet or exceed customer expectations for product quality and service.

Our strategy and markets

Filtronic is a leading designer and manufacturer of components and sub-systems used in advanced communication applications. The Group is organised into two independently managed business units, Filtronic Wireless and Filtronic Broadband, that respectively focus on RF conditioning and transceiver products.

Our strategy is to profitably grow our business by focussing on supplying, class leading, RF communication components and sub-systems for demanding applications across a number of target markets. Our key objectives are: -

- To offer a growing range of technically advanced, ultra wide band antennas, mmWave transceivers and associated products;
- To expand our customer base within existing markets; and
- To widen the number of markets we address.

Our largest serviced market is the mobile telecommunications infrastructure equipment market. This market has seen robust levels of investment in increased capacity for 4G/LTE in recent years as end user demand for services continues to grow. However, we note the recent reductions in current calendar year forecasts from both Nokia and Ericsson and we are a little more cautious regarding the short term as a consequence, though remain confident in the mid-term to long-term and continue to expect renewed demand growth from calendar 2018 from the new spectrum releases. The sector offers significant opportunities for volume deliveries but is highly competitive and price sensitive. Consequently, we have focussed our efforts on offering products that are technically challenging and innovative to differentiate us from larger, vertically integrated, Asian based suppliers.

In addition to the mobile telecommunications infrastructure equipment market we have an established presence in public safety communications and have also recently won our first major contracts in the defence & aerospace and high speed wireless internet markets. A number of new opportunities are opening up for mmWave products and these include applications in the industrial, security, satellite communication, automotive and transportation sectors.

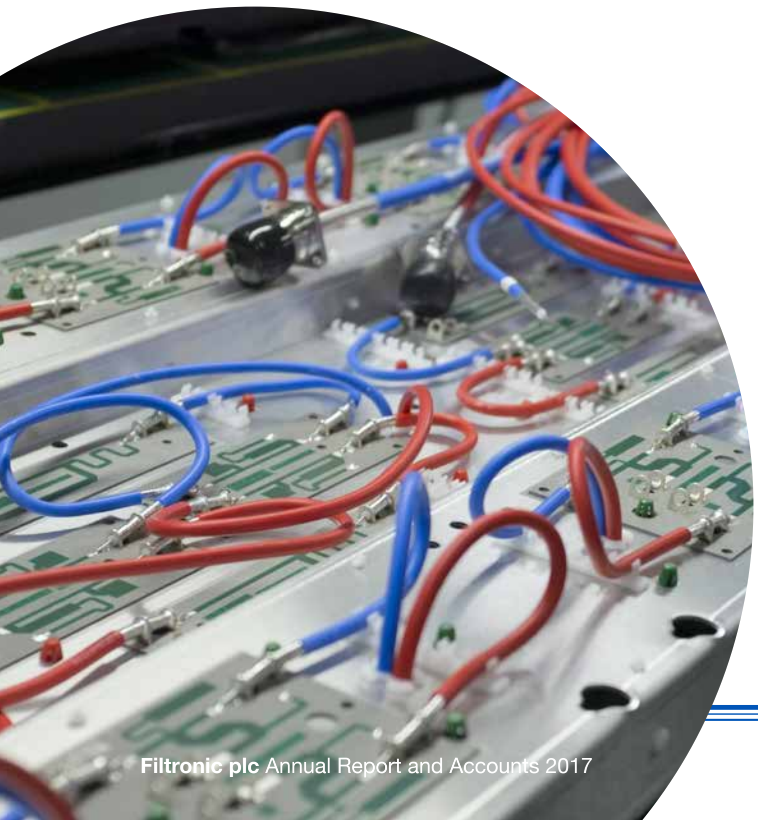
Filtronic Wireless

Filtronic Wireless is a specialist designer and manufacturer of RF conditioning products supplying antennas and filters to the telecommunications infrastructure equipment and public safety communications markets.

The Filtronic Wireless business more than tripled sales revenue in the year to £30.5m (2016: £9.0m) with an even split of sales between antenna and filter products achieving an operating profit of £3.5m (2016: £4.5m operating loss).

Sales of ultra wide band antennas to our lead customer were particularly strong in the first half of the year as we successfully completed the majority of the orders announced in FY2016. Executing these contracts has demonstrated our ability to introduce new products and rapidly ramp to volume production whilst controlling costs to ensure that we make a healthy margin for the business. Disappointingly, the follow-on demand for this product variant has been lower than initially forecast by our customer. However, this business has enabled us to gain good momentum into the antenna market and has established us as a credible player in the sector as confirmed by the growing number of trials underway with other customers.

Filter sales in FY2017 exceeded our expectations as we saw strong demand from both our main telecommunications original equipment manufacturer ("OEM") customers and in the public safety communications market. Demand was spread over several filter variants, which delivered improved margins as a result of excellent work by our operations and engineering teams on cost reduction initiatives.



Pictured: Antenna phasing network

Pictured: ODU, incorporating Orpheus

New product development within Filtronic Wireless is focussed on antenna products, and filters that go into these antennas, where we see greater long-term potential due to the trend towards integrated antenna and filter products in the industry. During the year, we launched products that support the newly released frequency spectrums in the US (600MHz) and Europe (1400MHz) and we are currently working on antennas that provide additional high and low bands in different configurations.

Progress in Filtronic Wireless is expected to remain lumpy due to the high level of customer concentration with just over 80 percent of sales revenue being derived from our largest customer.

Over the past few years Filtronic Wireless has focussed on supplying Western OEMs who service the mobile telecommunications infrastructure market. Following a series of consolidations in the industry in recent years, there are now only a handful of OEMs available for us to service. Filtronic Wireless has therefore looked to broaden its customer base by expanding its exposure to the public safety communications sector and to re-engage with mobile network operators (“MNOs”) where there is no direct competition with our OEM sales. To execute this strategy we have reorganised and strengthened our sales function in EMEA and the US. To augment our direct sales channels, we have appointed agents and distributors in certain territories to enable us to gain traction without the high overhead associated with a direct salesforce.

The process of reintroducing Filtronic as a supplier to MNOs will take time to yield significant contracts. However, we are making good progress and we are starting to see some initial small successes with some orders for filter products and growing engagement with our antenna product development roadmap, including the supply of sample antennas to MNOs for evaluation. We anticipate this area of activity will grow over the coming months.

Filtronic Broadband

Filtronic Broadband is a specialist designer and manufacturer of high frequency transceivers, sub-systems and components for the mobile telecommunications backhaul, defence & aerospace and other adjacent markets.

Sales revenue in our Filtronic Broadband business was approximately £4.9m for the year (2016: £4.6m) giving year on year sales growth of 7 percent. During the year the business reduced its operating loss to £0.9m (2016: £1.6m operating loss). Whilst this financial performance is clearly unsatisfactory, substantial progress has been made to diversify our customer base and the markets that we serve.

We saw good growth in demand for Filtronic Broadband’s flagship E-band transceiver product, Orpheus, in the first half of FY2017. However, it became apparent that our lead customer has struggled to compete with its Asian competitors and has sought price reductions from us that would have resulted in unacceptable margins. We have therefore declined to meet the target prices set by this customer and have focussed our resources on gaining business from customers who value our products more highly. Consequently, we saw a fall in demand from this customer in the second half of the year and we do not anticipate further significant volumes from them over the next year.

The prospects for Orpheus remain positive where customers understand the true value of our offering. Recent developments in our technology have seen Orpheus reliably operating at 10Gbps. The superior specification and demonstrable value proposition that we offer has resulted in growing demand from several tier 2 clients and we are also pleased that Orpheus has been selected by another tier 1 OEM for their new backhaul E-band radio. We are further encouraged to note that we have been commissioned to develop a derivative of Orpheus for a high speed wireless internet network in the US. This client is planning to use E-band as a lower cost and faster to install alternative to fibre optic cable and represents a clear sign that broadband networks of the future will include wireless technology.

Filtronic Broadband has also seen an increase in demand for legacy multi-chip package (“MCP”) assemblies at 6-11GHz and a new customer recently commissioned us to assemble 38GHz MCPs for a 5G trial system.

During the year, we completed the key milestones in the development of a long range (20km) sub-system E-band link that utilised Orpheus transceivers and our recently developed Cerus power amplifier. These sub-systems are currently undergoing flight trials by our customer pending their decision to proceed with commercialisation of this technology. Our ability to develop complex E-band sub-systems capable of achieving long range high capacity data links opens up significant market opportunities in a number of adjacent

Chief Executive's review continued

sectors including satellite and battlefield communications where traditional frequency bands are capacity constrained.

Entering the defence & aerospace market has been a key objective for Filtronic Broadband for several years and following a number of prototype builds, we were pleased to announce that we were selected as a manufacturing partner for a tier 1 European defence equipment supplier to manufacture their advanced radar transmit receive modules. The working capital for this initial programme is financed by our customer as they buy all material and they supply that material to us on a "free issue" basis for manufacture and test.

The demand for high frequency transceivers, sub-systems and components is set to grow rapidly in the coming years and the business is ideally placed to benefit from this growth. We have further strengthened our sales team and attended several trade shows that have led to exciting new customer engagements that include major Silicon Valley technology companies who are seeing the value of our mmWave technology capabilities.

Future trends

In the telecommunications infrastructure sector, we see several trends that are defining the market and directly impact on product and technology development. The market data, as set out in the market overview section of the annual report and accounts, continues to indicate that future infrastructure expenditure will be driven by the need to increase capacity.

The development of 5G networks is a hot topic in trade and general press publications and considerable investment is being made by MNOs and OEMs in preparation for 5G.

5G promises a significant rise in capacity as data rates to devices are predicted to increase from their current 100Mbps to 1Gbps. Currently the applications that require these data rates have not been defined but industry speculation suggests driverless cars and other IoT requirements will be sufficiently data hungry to require this capacity.

Pre 5G

3GPP have now named 5G as "5GNR" (5G New Radio) with a full specification expected to be announced in September 2018 (release 15). Leading up to the release of these specifications and in order to excite the market, both the OEMs and MNOs are starting to "beat the drum" about 5G.

We are seeing a number of operators increasing their 4G/LTE capacity and branding these updates variously as "Pre 5G" and "5G Evolution". In addition, there are a number of trials being undertaken of various enabling technologies that will be used in 5G.

Although specifications have not yet been released, there is an emerging consensus on the frequencies that will be required for the higher data rates that 5G envisages and OEMs are working on developing products and technologies accordingly.

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Rob Smith
Chief Executive Officer
31 July 2017

Market overview

Targeting key markets
The primary market for Filtronic's products continues to be the mobile telecommunications infrastructure market. However, we are actively pursuing adjacent markets where there is a good technology fit that have good growth prospects and are less price sensitive.

Adjacent markets that we are targeting include public safety communications, defence & aerospace, broadband networks and satellite communications.

In all cases, the markets that we are targeting are for wireless communication products where quality and innovation are essential to the customer.

Mobile telecommunications infrastructure equipment
The mobile telecommunications infrastructure equipment sector is a $100 billion-plus market, which continues to experience growth driven by the demand for data.

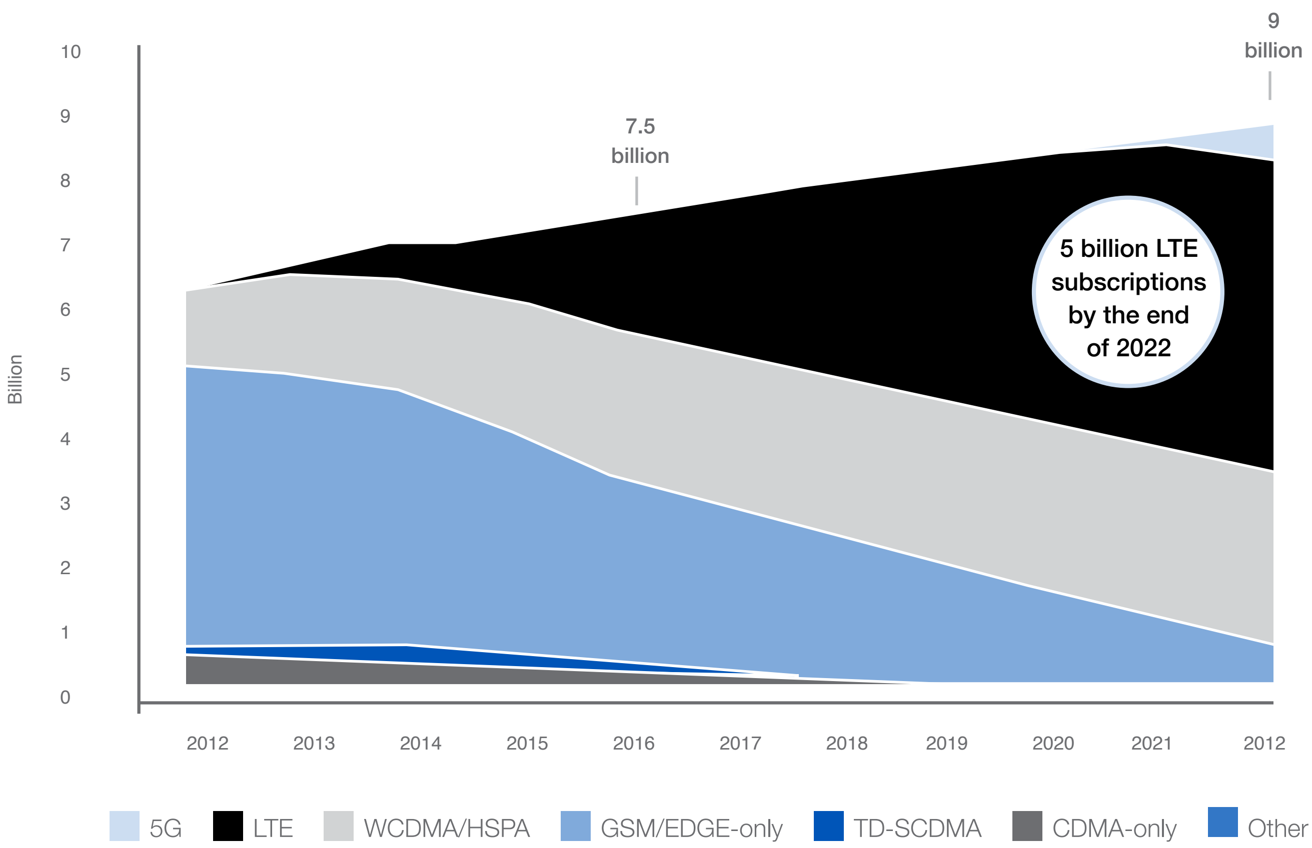
Mobile network operators worldwide continue to invest in networks to upgrade to 4G/LTE and to expand capacity as more subscribers are added and data traffic increases.

Increased subscriptions
Mobile subscriptions increased by 107 million between Q1 2016 and Q1 2017 totalling 7.6 billion globally. The largest growth in new subscribers was in the Asia-Pacific region with 43 million being added in India alone where an operator launched a free data introductory package to win market share.

In many countries, mobile subscriptions exceed the population mainly due to users enjoying services with multiple devices. It is estimated that there are 5.2 billion subscribers accounting for the 7.6 billion subscriptions. 4G/LTE subscriptions accounted for 2.1 billion (27.6 percent) of the total as at Q1 2017.

The total number of subscriptions is expected to grow to 9 billion by the end of 2022 with 4G/LTE expanding to 5 billion equating to 65.8 percent. 5G subscriptions are expected to reach 0.5 billion (5.5 percent) in the same time frame. North America is expected to be an early adopter of 5G with 25 percent of subscriptions in that region on the new standard by 2022. The Asia-Pacific region is expected to have 10 percent 5G subscriptions with Japan and South Korea leading the way as early adopters.

Mobile subscriptions by technology (billion)



Strategic Report

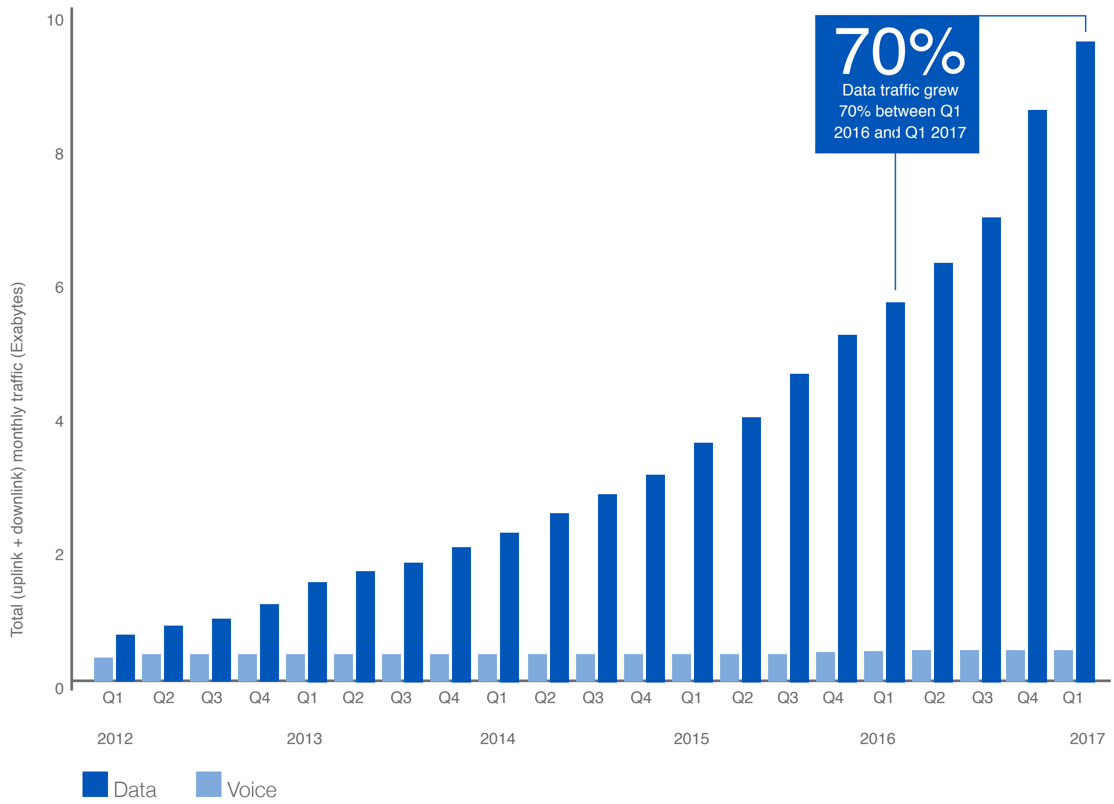
Market overview continued

Increased traffic

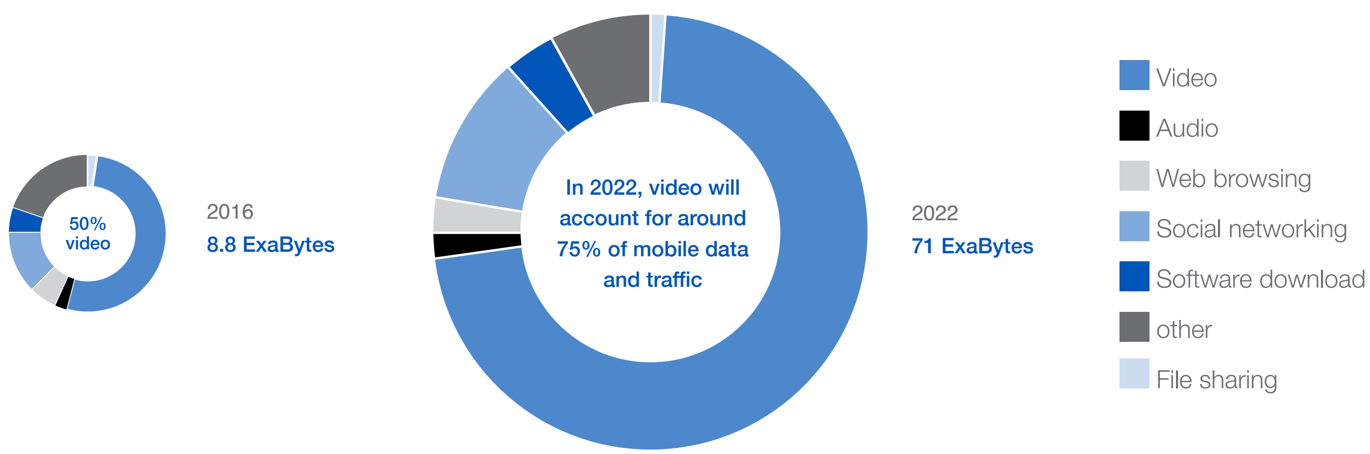
Mobile data traffic grew 70 percent between Q12016 and Q12017 mainly driven by increased viewing of video content. There was a spike in the underlying growth rate in Q42016 resulting from the Indian free data package and it remains to be seen if the users will continue to use data at the current rates when the free period ends.

Video traffic accounted for 50 percent of the data traffic in 2016 and video viewing is expected to grow at a faster rate than other applications over the next five years and is forecast to account for 75 percent of mobile data traffic by 2022. YouTube is still the dominant video service accounting for between 40-70 percent of total video traffic. Netflix is also seeing increased use as it is deployed to most markets and in some territories it regularly accounts for 10-20 percent of video data.

Global monthly data and voice traffic 2011 to 2016



Mobile data traffic by application category per month (ExaBytes)



Traditional social networking (e.g. Facebook and Twitter) as a proportion of the total traffic decreased somewhat (excluding embedded video). However, there has been an increase in communication-oriented services like WhatsApp, Snapchat and WeChat. Social media remains the second biggest category of mobile data use with predictions this will continue to be the case over the next five years.

Total mobile data traffic is forecast to grow at a compound average growth rate (CAGR) of 42 percent between 2016 and 2022. More than 90 percent of the growth is expected to derive from Smartphone use with all regions expected to see substantial growth.

As the most populous region, Asia-Pacific accounts for 42 percent of total mobile data traffic and is expected to maintain that position in 2022.

5G

Deployments of 5G are expected in early adopter markets with forecasts suggesting that there will be approximately 500 million subscriptions by 2022. Use cases for 5G are being developed with IoT applications, including automotive, expected to be the main driver. Automotive applications are expected to evolve from the current 4G/LTE delivered Wi-Fi hotspot and on-demand GPS map data to autonomous vehicle control and cooperative collision avoidance as 5G is deployed.

More capacity required

The increased number of subscriptions and growing data consumption will continue to stretch existing network capacity. The release of additional spectrum and use of unlicensed, sub-6GHz will alleviate capacity constraints to a degree but it will require continued investment in infrastructure by mobile network operators. We expect to see investment in antennas capable of operating at the newly released frequencies as well as the further adoption of equipment sharing combiners at base stations.

Backhaul is expected to be a capacity bottleneck in certain areas, especially where wireless backhaul is the predominant technology.

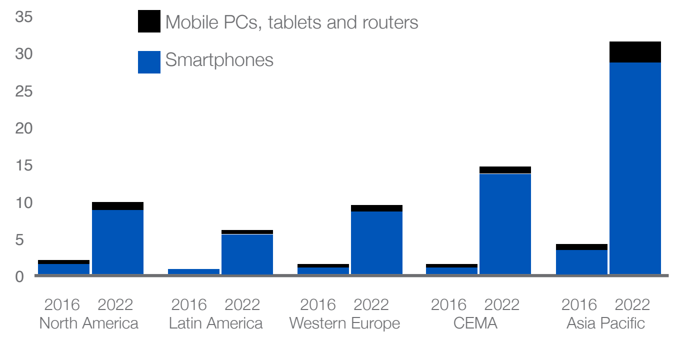
Broadband networks

Broadband networks for home and enterprise use have traditionally been deployed using fixed line, fibre optic cable and copper wire technology. There has been growing use of wireless links for "last mile" connection in recent years, in rural locations where capacity demand is low.

The deployment of fibre is a slow and expensive process, especially in urban environments where companies are required to dig up public highways, etc. It is also impractical to lay fibre where there are natural or manmade obstacles such as rivers and motorways.

With Orpheus E-band wireless links now achieving data rates of 10Gbps, wireless is now a realistic alternative to

Global mobile data traffic (ExaBytes per month)



fibre and offers significant advantages over older fixed line technologies.

Microwave can carry both fixed and mobile traffic, supporting traffic separation and security requirements, making E-band a stronger fibre alternative to be used as a complement or as a fibre extension.

In parts of Europe, the introduction of E-band frequencies in combination with lower fees compared to 'traditional' frequencies and lower total cost of ownership, has led to a rapid uptake. E-band has provided the tipping point for increased microwave deployments in specific markets such as high-frequency stock trading networks who require the extreme low latency performance which microwave offers.

With further multiband solutions for microwave expected this will accelerate the growth of E-band (70/80GHz). If the growth curve continues, E-band is expected to account for 20 percent of new deployments by 2020.

Public safety communications

Public safety communications networks have been established globally to allow interoperable emergency communication between "blue light" services and other government agencies. There are two widely adopted standards, Project-25 (P25) and Tetra. P25 was developed in the US and has been adopted in the US, Canada, Australia, New Zealand, Brazil, India and Russia. Tetra was developed in Europe and has been adopted in 60 countries including most of Europe and China.

The rate of adoption of public safety communications technology has been far slower than mobile telecommunications systems as its deployment is subject to state and national government budgetary constraints.

Public safety communications networks are a narrow band "voice first" platform with some data capability. Some jurisdictions are assessing the possibility of adopting 4G/LTE for public communication. This would enable far greater data capacity yet would require a "carve out" of the mobile networks in the event of an emergency. 3GPP release 13 includes some key functionality (push-to-talk) that is required

Market overview continued

by public safety users. The migration to 4G is expected to take up to ten years and both Tetra and P25 are expected to see continual deployment and upgrade through this period.

Filtronic has developed a range of filter and combiner products for its lead customer in this market and has primarily been involved in P25 equipment sold into the US market. We are actively working to increase our presence in this market and have recently tendered for filters required in Tetra applications where we have also identified antenna opportunities that we can address in the medium-term.

Defence and aerospace

Mission critical communications and radar systems in the defence and aerospace sectors are a primary target market for Filtronic. Whilst overall expenditure for defence budgets has reduced in recent years, spending on secure communications and radar-related applications has remained a priority.

Filtronic will service this industry and is focussed on supplying the global customer base. Having engaged with several tier one primes, opportunities exist within this market to supply filters, switched filters, amplifiers and high data-rate transceiver products. In addition to the announced contract win for transmit-receive modules, we have secured several prototype orders for a variety of different component designs.

Design-in and qualification processes in this industry take longer than our traditional commercial/telecoms markets, however, longevity of the product lifecycle is increased along with improved visibility and commitment.

Satellite communications

The satellite communications sector is evolving as existing frequency bands for up/down links become congested. This, along with the need to transmit/receive higher-capacity data (10Gbps+), means that the satellite companies must now move up in frequency from "traditional" microwave bands to licence free, mmWave bands. Filtronic is well placed to service this market with its in-depth knowledge of mmWave transceivers and its experience of high-power systems for low Earth orbit and high altitude applications.

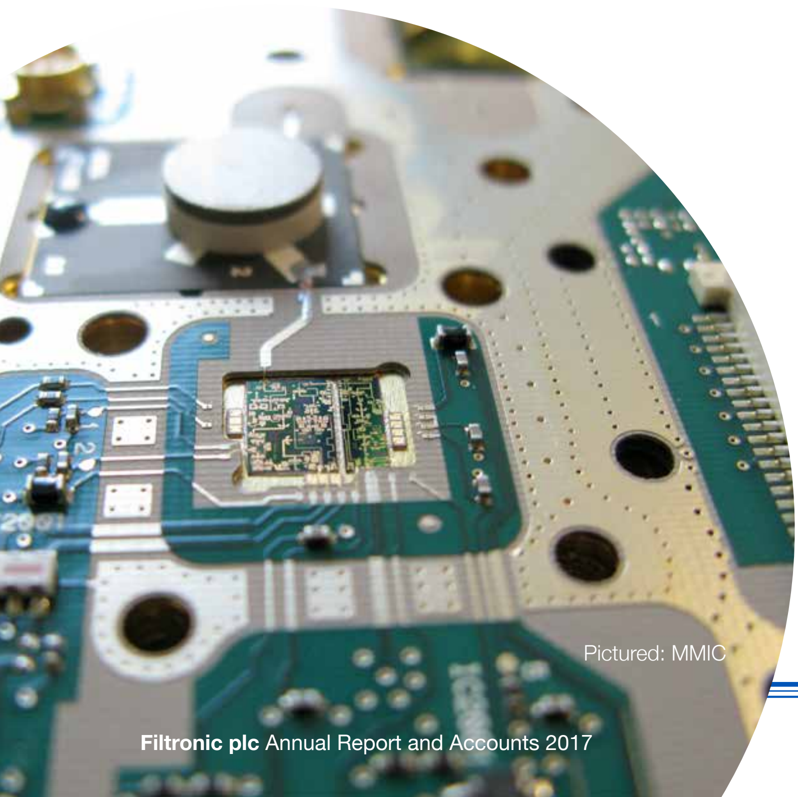
Other

In addition to our target markets, we continue to receive enquiries from companies in other sectors. We are seeing potential demand for mmWave products for applications as diverse as test equipment and transportation (mmWave links to mass transit).

Whilst we are focussing on our target markets we evaluate enquiries from other sectors on their merits.

The market overview contains some data and information sourced from the June 2017 - Ericsson Mobility Report, available at www.ericsson.com/en/mobility-report, and the October 2016 - Ericsson Microwave Outlook, www.ericsson.com/en/microwave-outlook.

Filtronic exhibiting at Mobile World Congress, Barcelona, Spain - 2017



Pictured: MMIC

Objective and strategy

Filtronic is a leading designer and manufacturer of components and sub-systems used in advanced communication applications. The Group is organised into two independently managed business units, Filtronic Wireless and Filtronic Broadband, that respectively focus on RF conditioning and transceiver products.

Our strategy is to profitably grow our business by focussing on supplying class leading, RF communication components and sub-systems for demanding applications across a number of target markets. Our key objectives are:-

- To offer a growing range of technically advanced, ultra wide band antennas, mmWave transceivers and associated products;
- To expand our customer base within existing markets; and
- To widen the number of markets we address.

Filtronic Wireless

Filtronic Wireless designs and manufactures RF conditioning products, filters and antennas, for the mobile telecommunications infrastructure and public safety communications markets.

Product strategy

Antennas

Filtronic has developed a range of ultra wide band antennas, based on our own intellectual property, that covers released spectrum in the US, Europe and other major territories. We continue to develop new products that cover new spectrum releases and add functionality to enable MNOs to maximise utilisation of their frequency assets.

Our products utilise our innovative application specific phase shifter, remote electronic tuning technology ("RET") and filters and combiners. All antennas incorporate our novel, patented radiating elements and are designed to meet demanding customer specifications using principles that ensure our products are cost competitive, easy to install and service and are highly reliable.

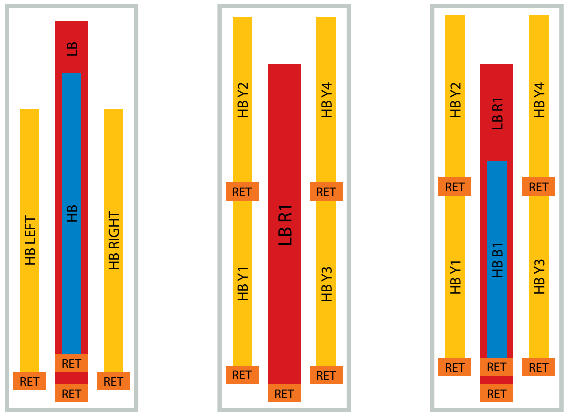
Filters

Filtronic offers a range of standard filters and combiners to MNOs and custom designed filters and combiners to OEMs. We focus on niche products that have demanding specifications for applications such as base station equipment sharing.

In addition, we design and manufacture advanced filters to our own specification for use in our integrated antenna products.

Market strategy

We have established close working relationships with the major Western OEMs and are working to win



Filtronic quadband, pentaband and hexaband antenna configurations.

business at MNOs that value our design philosophies. In the US, we have a direct sales channel and in EMEA we have a direct sales channel supported by a number of distributor and agency arrangements.

Organisation/fulfilment strategy

Antenna design is based at our NPI centre in Täby, Sweden where our EMEA sales team is also based. Filter design is based in Leeds, UK as are our operations, logistics and cost reduction management teams. Our US sales and engineering centre is based in Salisbury, MD.

Manufacturing is outsourced to our partners in Suzhou, China. Our quality and high value procurement teams are based at our manufacturing partner to ensure that we have full ownership of these key functions.

Pictured: Manufacturing line in China

Objective and strategy continued

Filtronic Broadband

Filtronic Broadband is a designer and manufacturer of advanced RF, microwave and mmWave products used in communications applications including mobile telecommunications, defence & aerospace and broadband networks.

Product strategy

Filtronic Broadband's core capabilities are centred around three distinct groups:

- mmWave Transceiver Modules;
- Microwave/mmWave Defence and Aerospace Components; and
- Contract Manufacturing and Design Services.

The business is a device-agnostic supplier of mmWave transceivers to OEMs offering high data-rate, competitively priced modules that reduce customer time to market.

We supply customised, turnkey microwave solutions and bespoke Contract Manufacturing Services including 'chip & wire' and multichip packaging from our highly-automated UK facility.

The Filtronic Broadband component range includes GaN & GaAs amplifiers, MMIC's, diplexers and filter products covering a wide frequency range from DC-110GHz.

Market strategy

Filtronic Broadband sells its proprietary Orpheus and derivative transceivers directly to Tier 1 and Tier 2 OEMs for backhaul applications. In addition, we market ODUs to clients where this does not compete with our OEM customers.

We have a direct sales channel which has been strengthened in the year. To broaden our customer base we have successfully developed relationships with several European defence contractors selling directly in the UK and have recently signed agreements to work with distributors and agents in a number of European countries.

We exhibit at several trade shows including European Microwave Week, the International Microwave Symposium and Defence and Security Equipment International.

Organisation/fulfilment strategy

Filtronic Broadband is based at our mmWave centre of excellence on the North-East Technology Park in Sedgefield, UK where we design and manufacture all of our products in this business.

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

Pictured: Cerus, E-band Power Amplifier

Revenues

Sales revenue for the Filtronic Group increased in the year by 160 percent to £35.4m (2016: £13.6m). Filtronic Wireless was the main driver of the growth with sales of £30.5m (2016: £9.0m) as the business successfully fulfilled orders of ultra wide band antennas to its lead customer and the filter product offering saw much stronger trading to OEM customers in both the mobile telecommunications infrastructure and the public safety communications markets. Filtronic Broadband saw revenue growth of 7 percent with sales increasing to £4.9m (2016: £4.6m). Whilst this growth was modest, it was very encouraging to see a large proportion of revenues coming from new products as the business continues to make significant progress in diversifying the customer base and the markets it serves.

Operating Costs

Operating costs reduced in the year as the Group benefitted from cost reductions implemented in FY2016. Further to this, we took the opportunity in the period under review to consolidate our operational footprint in the US down to a single site in Salisbury, Maryland, which has resulted in reduced property costs and associated overheads. We continue to invest in product development, engineering and customer support to grow our business whilst ensuring that we have an efficient operating structure in line with the size and nature of our business. Overheads, excluding depreciation, amortisation and share based payments, reduced to £9.6m (2016: £10.0m). The average headcount during the year was 116 (2016: 128) although a recent investment has been made to increase the size of the engineering and product development organisation to facilitate further organic growth.

Adjusted operating profit/(loss)

Adjusted operating profit/(loss) (the definition of which is referenced on the income statement on page 30) was £1.8m (2016: £6.8m loss). Filtronic Wireless returned to profitability with an adjusted operating profit of £3.6m (2016: £4.5m loss) due to significantly higher revenues, improved product margins and a reduced overhead cost base. Filtronic Broadband posted an adjusted operating loss of £0.9m (2016: £1.7m) which, whilst unsatisfactory, represents a significant improvement on the prior year.

Operating profit/(loss)

Operating profit was £1.7m (2016: £7.0m loss) in the year. The difference between adjusted operating profit and operating profit in the year being a charge for amortisation of development costs in the year of £0.1m (2016: £nil).

Exceptional costs

Exceptional finance income of £0.7m (2016: £nil) was credited to the income statement due to the revaluation of a US Dollar denominated intercompany balance in the Filtronic Wireless UK entity. This was a result of the US Dollar strengthening against Sterling during the year and the intercompany loan to the US subsidiary being worth more in Sterling.

Capital expenditure

Capital expenditure of £0.8m (2016: £0.2m) included £0.3m for the Filtronic Wireless business (2016: £0.1m) and £0.5m for Filtronic Broadband (2016: £0.1m). Filtronic Wireless invested in production tooling to enable cost savings to improve product margins, whilst Filtronic Broadband invested in new test equipment to increase production capacity on the recently secured contract to supply a tier 1 European defence OEM over the next eight years.

Research and development costs

Total research and development costs in the year were £3.2m (2016: £4.3m). The Group continues to invest in research and development for the future growth of the business through new and enhanced products to meet the expanding demands of customer programmes. Key areas of expenditure included the development of a wider portfolio of antennas and E-band products, both of which we expect to deliver significant future revenue opportunities. The Group capitalises its research and development costs in line with IAS 38; no costs met the criteria for capitalisation in the current financial year (2016: £0.3m). Amortisation of intangible assets in the year relating to development costs previously capitalised was £0.1m (2016: £nil) giving an underlying research and development charge to the income statement of £3.1m (2016: £4.0m).

Financial review continued

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 2017 the inventory provision was £1.6m (2016: £2.0m).

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 2017 the warranty provision was £0.5m (2016: £0.2m); the increase in provision at the year-end reflected the higher sales attained during FY2017.

Funding and cash flow

The Group ended the year with net cash of £2.6m (2016: £0.3m net debt). Cash generation from operating activities in the year included receipts from research and development tax credits of £1.6m of which £0.8m related to development activities in FY2016 and £0.8m to activities in FY2015. The £0.8m relating to FY2015 was recognised in the income statement last year and a was a debtor on the balance sheet at 31 May 2016. Cash inflow from operating activities was £3.9m (2016: £5.0m outflow). The full breakdown of this movement can be seen on the consolidated cash flow statement on page 34.

Filtronic has a £3.0m invoice discounting facility with Barclays Bank plc in the UK, which was increased from £2.0m during the year. As at 31 May 2017 £nil was drawn down against this facility (2016: £0.5m). Following the increase of the Barclays facility and as a consequence of the Group's improved balance sheet, the Board took the decision to terminate the FGI US debtor book facility as the terms of this facility no longer met the Group's requirements. We maintain an ongoing review of our US debtor book financing requirement and will secure appropriate facilities that more closely match our future funding requirements if and when necessary.

Michael Tyerman
Finance Director
31 July 2017

Pictured: Filtronic 8-Port and 10-Port, 65 Degree, Ultra Wide Band Base Station Sector Antennas.

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 mobile 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 customers, on an engineer to engineer basis, to ensure that we are designed in to their products at an early stage. The Group has strengthened the sales teams both directly and indirectly and is actively seeking to increase the number of design wins across a range of products with a growing opportunity pipeline. 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.	
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 ISO 9001. 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.	

Strategic Report

Risk management continued

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 communication meetings in each of our business locations along with a bi-monthly newsletter including 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 35 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 its stakeholders, 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.

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, throughout the Group.

Employee development

Employee development is an important element of employee retention and motivation. The Group has an education and training policy in place which is being implemented through developing a group-wide infrastructure to support the identification of staff development needs through meetings and staff appraisals. The aim is to provide quality staff development which supports the Group's strategic objectives, simultaneously aiding talent management and succession planning.

In Filtronic Broadband we also continue to develop our partnerships with education providers.

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/investors/corporate-governance /group-policies/

Diversity and inclusion

Filtronic has a policy on diversity (which includes gender diversity) and equal opportunities and our aim of providing equal opportunities for all without discrimination is one of the Group's core values (expected of employees, suppliers and other stakeholders). 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 appropriate 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. In 2016, 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.

Corporate social responsibility report

continued

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 ISO 9001 standard; Salisbury, Maryland, USA; Leeds, West Yorkshire, UK; and Sedgefield, County Durham, UK. The Leeds site is also certified to the ISO 14001 standard.

Work is ongoing in our Swedish facility to attain both ISO 9001 and ISO 14001 standards.

Charitable and community support

To demonstrate our ongoing commitment to the community the Group has introduced paid leave for staff to undertake voluntary or charitable work.

Staff at Filtronic Broadband have mentored St Leonard's Catholic School in Durham as part of the "Future Business Magnates" programme, whilst Filtronic Wireless staff in Sweden have supported the Schools Road Safety initiative in Täby.

Over the course of the year Filtronic employees have organised and sponsored staff competing in the Great North Run and London Marathon and have made additional donations to the Heel & Toe Children's Charity and the Solan Connor Fawcett Cancer Trust charity.

In relation to community support, Filtronic has also hosted a number or work experience placements for GCSE students.

Supply chain

The adoption of an advanced product life cycle management software system in 2014, 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 & 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.

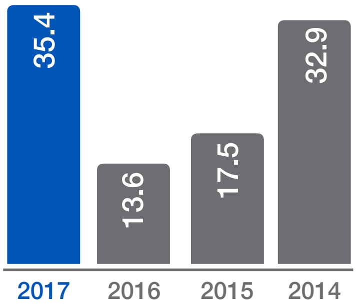
The implementation of these management systems, which are designed to monitor and control processes such as quality, the environment and health and safety will provide Filtronic with the confidence that each and every product that is delivered to our customers is an appropriate level of quality, and 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. The adoption of a customer relationship management (CRM) system in Filtronic Broadband during the year complements this approach. The CRM system will be implemented in Filtronic Wireless during the coming year.

Key performance indicators

The Group's management team uses various key performance indicators ('KPIs') to monitor financial and non-financial performance of their business units. Below are the measures and metrics which the Board believes best indicate the performance of the Group as a whole.

Revenue (£m)

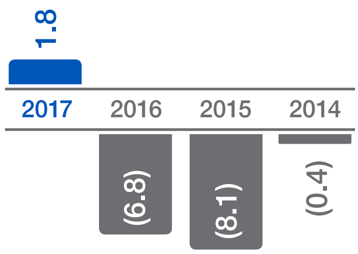
£35.4m



The total amount the Group earns from the sale of products and services

Adjusted operating profit/(loss) (£m)

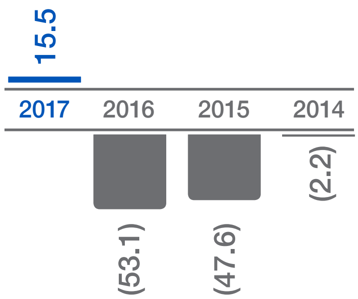
£1.8m



The Board recognises adjusted operating profit/(loss) as a key metric of the underlying health of the business.

Adjusted operating profit/(loss) per employee (£k)

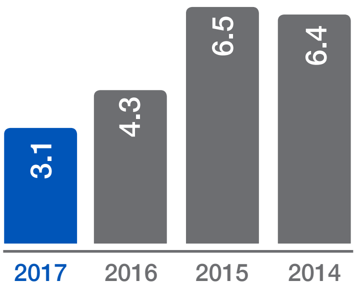
£15.5k



Employees are a critical asset in our business and we monitor the adjusted operating profit/(loss) per employee to measure productivity

Research and development costs (£m)

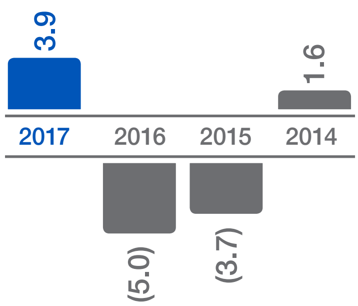
£3.1m



The Board recognises that the Group needs to invest in new products, capabilities and technologies to participate in a technology driven market and measures the investment made in research and development.

Cash generated from/(used in) operating activities (£m)

£3.9m



The Board recognises that cash flow from operating activities indicates whether the Group is able to generate sufficient positive cash flow to maintain and grow its operations, or it may require external funding for financing.

The FY2017 strategic report, from pages 4 to 21 has been reviewed and approved by the Board of Directors on 31 July 2017 and signed on its behalf by

Rob Smith
Chief Executive Officer
31 July 2017

Governance report

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

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 clarity.

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

Yours sincerely

Reg Gott
Chairman
31 July 2017

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 contributes minutes each board meeting.

Executive Directors

Robert (Rob) Smith (aged 53) 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 38) 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 60) 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 52) 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 Chairman 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 operational sites in the UK 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. During the year, the Board also held a board meeting at the company premises in Suzhou, PR China as well as at its engineering design centre in Täby, Sweden.

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, PDMAs and the Company Secretary);
- Approval of all terms of reference for the committees of the Board;
- Review of the Group's overall corporate governance arrangements including systems of internal controls and risk management; and
- Approval of the delegation of authority to the Chief Executive Officer or where appropriate to the relevant board committee;

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 three 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 of 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 FY2017

The Board normally schedules at least 10 meetings during the year. Last year the Board met 12 times. Attendance at board meetings and committee meetings during the year ended 31 May 2017 was as follows:

	Board	Audit	Nominations	Remuneration
Total meetings in year	12	3	2	2
Director attendance				
Reg Gott	12	3	2	2
Michael Roller	12	3	2	2
Rob Smith	12	N/A	N/A	N/A
Michael Tyerman	12	N/A	N/A	N/A

Attendance at board (and committee) meetings held in FY2017

In addition to these 12 board meetings, there were 5 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

On behalf of the Board I am pleased to present the Filtronic Directors' remuneration report for the year ended 31 May 2017.

The Company, being listed on AIM, is not required to produce a comprehensive Directors remuneration report or to submit a remuneration policy to a binding vote. However, the Board does wish to maintain transparency and demonstrate good governance 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/investors/corporate-governance/remuneration-committee.

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

Reg Gott
Chairman, Remuneration Committee
31 July 2017

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 £157,594 Car allowance Annual bonus Health insurance Pension	12 Months
Michael Tyerman **Finance Director**	Appointed to the Board on 1 April 2016	Base salary £90,200 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 Appointed Chairman on 27 November 2015	£60,000	6 Months
Michael Roller	Audit Committee Chairman	Appointed to the Board on 1 June 2013	£40,000	3 Months

Certain sections constitute the audited part of the reports of the remuneration report.

Total single figure of remuneration for Directors - audited

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	**FY2017**	FY2016	**FY2017**	FY2016	**FY2017**	FY2016	**FY2017**	FY2016
Executive Directors								
Rob Smith	**154**	150	**141**	50	**11**	11	**306**	211
Michael Tyerman*	**82**	14	**40**	-	**8**	1	**130**	15
Non-executive Directors								
Reg Gott	**60**	50	**-**	-	**-**	-	**60**	50
Michael Roller	**35**	38	**-**	-	**-**	-	**35**	38
Howard Ford**	**-**	35	**-**	-	**-**	1	**-**	36
Graham Meek**	**-**	20	**-**	-	**-**	-	**-**	20
Total	**331**	307	**181**	50	**19**	13	**531**	370

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

Notes to the single figure table of remuneration for Directors - audited

Taxable benefits

Taxable benefits in kind were unchanged in FY2017 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 FY2017

The executive Directors were rewarded during the year for delivering profit targets aligned to the 2017 business plan.

Annual performance related bonus plan

An annual performance related bonus plan has been introduced for the year ending 31 May 2018 which will reward executive Directors and key management and staff cash bonuses for delivering stretching profit targets aligned to the 2018 business plan.

Total single figure of pension benefits for Directors - audited

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	**FY2017**	FY2016
Rob Smith	**12**	12
Michael Tyerman	**7**	1
Total	**19**	13

Contributions were made to the Company defined contribution scheme.

Directors' remuneration report continued

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 2017, in the Company's ordinary shares, which excludes interests under the share option schemes, are set out below:

	2017		2016	
	Shares	%	Shares	%
Rob Smith	257,656	0.1%	257,656	0.1%
Michael Tyerman	11,882	0.0%	11,882	0.0%
Reg Gott	354,429	0.2%	354,429	0.2%
Michael Roller	101,762	0.0%	101,762	0.0%
	725,729	0.3%	725,729	0.3%

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 2017 held the following options over the ordinary shares of the Company.

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

The ESOP scheme introduced in May 2017 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. Information relating to share options can be found in note 30.

The closing middle market price on 31 May 2017 was 12p, and on 31 May 2016 it was 11p. The range of middle market share prices during the year ended 31 May 2017 was 9p-14p.

There were no changes in Directors' interests between 31 May 2017 and 31 July 2017. 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 2017.

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 15.

After a review of forecasts including projections of profitability and cash flows for the year to 1 August 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, and up to the date of this report, were as follows:

Rob Smith
Michael Tyerman
Reg Gott
Michael Roller

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

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

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.

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 £3.2m (2016: £4.3m), of which £nil were capitalised (2016: £0.3m). Amortisation of development costs in the year was £0.1m (2016: nil)

Substantial shareholdings

Up to 31 May 2017 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 2017 (as disclosed by shareholders via TR1), is set out in the table below. As at 31 May 2017 the Company had issued share capital of 206,910,146 ordinary shares of 0.1p each.

Financial results and dividend

The results for the year are set out in the income statement on page 30. The position at the end of the year is shown in the balance sheet on page 32.

The Directors are not recommending payment of a dividend (2016: 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 September 2016.

Top Investors

Rank	Investor	31-May-17	% IC
1	Legal & General Investment Mgt	30,994,078	14.98
2	Mrs Diana M Dixon	24,000,000	11.60
3	Aberforth Partners	15,305,008	7.40
4	River & Mercantile Asset Mgt	14,921,251	7.21
5	Hargreave Hale	12,697,180	6.27
6	Old Mutual Global Investors	10,148,000	4.90
7	Hargreaves Lansdown Asset Mgt	9,716,298	4.70
8	Barclays Wealth	8,215,160	3.97
9	Mr David Newlands and Mrs Monique Newlands	8,015,000	3.87
10	Halifax Share Dealing	6,235,446	3.01

Directors' report continued

Political and charitable contributions

No contributions were made for political or charitable purposes (2016: £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 28 September 2017 at the offices of Panmure Gordon & Co, 1 New Change, London EC4M 9AF. 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
31 July 2017

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 2017 set out on pages 30 to 61. 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 28, 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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- 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. Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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
31 July 2017

Consolidated income statement

for the year ended 31 May 2017

	Note	Group 2017 £000	Group 2016 £000
Revenue		**35,373**	13,580
Adjusted operating profit/(loss)*		**1,797**	(6,840)
Amortisation of development costs	16	**(95)**	-
Capitalisation of development costs	16	**-**	286
Exceptional operating items	5	**-**	(426)
Operating profit/(loss)	4	**1,702**	(6,980)
Finance costs	11	**(287)**	(59)
Exceptional finance items	5	**740**	-
Finance Income	12	**740**	-
Profit/(loss) before taxation		**2,155**	(7,039)
Taxation	13	**962**	1,922
Profit/(loss) for the period		**3,117**	(5,117)
Basic earnings/(loss) per share	14	**1.51p**	(3.20p)
Diluted earnings/(loss) per share	14	**1.49p**	(3.20p)

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

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

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

Consolidated statement of comprehensive income

for the year ended 31 May 2017

	Note	Group 2017 £000	Group 2016 £000
Profit/(loss) for the period		**3,117**	(5,117)
Other comprehensive income			
Items that are or may be subsequently reclassified to profit and loss:			
Currency translation movement arising on consolidation	27	**(541)**	(55)
Total comprehensive income for the period		**2,576**	(5,172)

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 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 2017

	Note	Group 2017 £000	2016 £000
Non-current assets			
Goodwill and other intangibles	16	**3,590**	3,648
Property, plant and equipment	17	**1,354**	1,230
Deferred tax	18	**1,015**	834
		5,959	5,712
Current assets			
Inventories	19	**2,249**	1,685
Trade and other receivables	20	**8,643**	8,960
Cash and cash equivalents		**2,598**	990
		13,490	11,635
Total assets		**19,449**	17,347
Current liabilities			
Trade and other payables	21	**8,061**	7,295
Provisions	22	**545**	161
Deferred income	23	**105**	460
Interest bearing borrowings	34	**-**	1,270
		8,711	9,186
Non-current liabilities			
Deferred income	23	**11**	32
		11	32
Total liabilities		**8,722**	9,218
Net assets		**10,727**	8,129
Equity			
Share capital	25	**10,788**	10,788
Share premium	26	**10,640**	10,640
Translation reserve	27	**(796)**	(255)
Retained earnings	29	**(9,905)**	(13,044)
Total equity		**10,727**	8,129

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

Company number 2891064

Approved by the Board on 31 July 2017 and signed on its behalf by

Rob Smith

Chief Executive Officer

31 July 2017

Consolidated statement of changes in equity

for the year ended 31 May 2017

	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total Equity £000
Balance at 1 June 2015	10,688	6,199	(200)	(7,958)	8,729
Loss for the year	-	-	-	(5,117)	(5,117)
Share based payments	-	-	-	31	31
Shares issued in the year	100	4,441	-	-	4,541
Currency translation movement arising on consolidation	-	-	(55)	-	(55)
Balance at 31 May 2016	10,788	10,640	(255)	(13,044)	8,129
Profit for the year	-	-	-	3,117	3,117
Share based payments	-	-	-	22	22
Currency translation movement arising on consolidation	-	-	(541)	-	(541)
Balance at 31 May 2017	**10,788**	**10,640**	**(796)**	**(9,905)**	**10,727**

Company statement of changes in equity

for the year ended 31 May 2017

	Share capital £000	Share premium £000	Retained earnings £000	Total Equity £000
Balance at 1 June 2015	10,688	6,199	1,749	18,636
Loss for the year	-	-	(4,678)	(4,678)
Shares issued in the year	100	4,441	-	4,541
Balance at 31 May 2016	10,788	10,640	(2,929)	18,499
Profit for the year	-	-	(631)	(631)
Share based payments	-	-	5	5
Balance at 31 May 2017	**10,788**	**10,640**	**(3,555)**	**17,873**

Consolidated cash flow statement

for the year ended 31 May 2017

	Note	Group 2017 £000	Group 2016 £000
Cash flows from operating activities			
Profit/(loss) for the period		**3,117**	(5,117)
Taxation		**(962)**	(1,922)
Finance income		**(740)**	-
Finance costs		**287**	59
Operating profit/(loss)		**1,702**	(6,980)
Share-based payments		**22**	31
(Profit)/loss on disposal of plant and equipment		**(85)**	76
Depreciation		**658**	655
Amortisation of intangibles		**110**	15
Movement in inventories		**(493)**	(25)
Movement in trade and other receivables		**(214)**	(175)
Movement in trade and other payables		**559**	603
Movement in provision		**384**	50
Change in deferred income		**(376)**	439
Tax received		**1,599**	261
Net cash from/(used in) operating activities		**3,866**	(5,050)
Cash flows from investing activities			
Interest paid		**(286)**	(59)
Capitalisation of development costs		**-**	(286)
Acquisition of plant and equipment		**(811)**	(172)
Proceeds on sale of assets		**86**	36
Net cash used in investing activities		**(1,011)**	(481)
Cash flows from financing activities			
Proceeds from new shares issued (Net of issue costs)		**-**	4,541
Proceeds from interest bearing borrowings		**-**	950
Payment of interest bearing borrowings		**(1,270)**	-
Net cash (used in)/from financing activities		**(1,270)**	5,491
Movement in cash and cash equivalents		**1,585**	(40)
Currency exchange movement		**23**	(57)
Opening cash and cash equivalents		**990**	1,087
Closing cash and cash equivalents	34	**2,598**	990

Company balance sheet

at 31 May 2017

	Note	Company 2017 £000	Company 2016 £000
Non-current assets			
Investments in subsidiaries	15	**10,564**	10,564
Intangible assets	16	**143**	127
Property, plant and equipment	17	**-**	38
		10,707	10,729
Current assets			
Trade and other receivables	20	**12,472**	13,039
Cash and cash equivalents		**124**	125
		12,596	13,164
Total assets		**23,303**	23,893
Current liabilities			
Trade and other payables	21	**5,430**	5,394
Total liabilities		**5,430**	5,394
Net assets		**17,873**	18,499
Equity			
Share capital	25	**10,788**	10,788
Share premium	26	**10,640**	10,640
Retained earnings	29	**(3,555)**	(2,929)
Total equity		**17,873**	18,499

Company number 2891064

Approved by the Board on 31 July 2017 and signed on its behalf by

Rob Smith

Chief Executive Officer

31 July 2017

Notes to the financial statements

for the year ended 31 May 2017

1 Accounting policies

Reporting entity

Filtronic plc is a Company registered in England and Wales, domiciled in the United Kingdom, and 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 at least the next twelve months from the balance sheet signing date 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 and foreign currency translation

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, cash flow 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; and
- The income statements and cash flow statements are translated at the average rate of exchange each month in 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.

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.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. The majority of sales in the Group are made at the point the product leaves the Filtronic production facility but there are sales to a number of customers 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 vendor managed inventory at third party locations, in this instance, revenue is recognised when the goods have been moved out of the location by the customer and a consumption advice has been provided.

1 Accounting policies (continued)

Contracts undertaken to provide an engineering service, such as the design of a product, funded by the customer is recognised as revenue when the outcome of the contract can be estimated reliably and the contract revenue is recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed against project milestones. Otherwise, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

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 schemes, under which share options are granted to certain employees. The granting of the share options constitutes 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 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

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of any existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a gain is recognised immediately in the consolidated income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the consolidated income statement. Where contingent consideration is linked to continued employment it is classified as an employment cost and recognised in the consolidated income statement over the relevant period.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

Notes to the financial statements

for the year ended 31 May 2017

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. 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 the income statement 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:

- Licences Life of the licence/patent
- Software Licence 4 to 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 the income statement. 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 2017

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 June 2016:

- 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 standards are not expected to have a material impact on the Consolidated Financial Statements.

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.

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 based on sales order book, market intelligence and inventory aging.

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 based on historical data, aging of debts and market intelligence of our customers. 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 using customer forecasts and market knowledge.

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 2017

3 Segmental analysis

Operating segments

IFRS 8 requires consideration of the identity 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 two customers representing individually over 10 percent each and in aggregate 82 percent of revenue. This is split as follows:

- Customer A (Filtronic Wireless) — 71%
- Customer B (Filtronic Wireless) — 11%

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	
	2017 £000	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Revenue	**4,917**	4,618	**30,456**	8,962	**-**	-	**35,373**	13,580
Depreciation	**304**	330	**354**	316	**-**	9	**658**	655
Adjusted operating profit/(loss)*	**(901)**	(1,723)	**3,602**	(4,514)	**(904)**	(603)	**1,797**	(6,840)
Amortisation of development costs	**(33)**	-	**(62)**	-	**-**	-	**(95)**	-
Capitalisation of development costs	**-**	100	**-**	186	**-**	-	**-**	286
Exceptional operating Items	**-**	-	**-**	(209)	**-**	(217)	**-**	(426)
Reportable segment operating profit/(loss)	**(934)**	(1,623)	**3,540**	(4,537)	**(904)**	(820)	**1,702**	(6,980)
Finance costs	**-**	-	**(264)**	(59)	**(23)**	-	**(287)**	(59)
Finance income	**-**	-	**740**	-	**-**	-	**740**	-
Profit/(loss) before taxation	**(934)**	(1,623)	**4,016**	(4,596)	**(927)**	(820)	**2,155**	(7,039)
Reportable segment assets	**3,082**	2,475	**12,817**	11,306	**15,012**	15,601	**30,911**	29,382
Capital expenditure	**467**	58	**344**	107	**-**	7	**811**	172
Reportable segment liabilities	**10,078**	8,778	**12,141**	14,546	**516**	480	**22,735**	23,804

*Operating profit/(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

	2017 £000	2016 £000
Depreciation and amortisation		
Reportable segment totals	**658**	655
Amortisation of development costs	**95**	-
Amortisation of other intangible assets	**15**	15
Consolidated depreciation and amortisation	**768**	670
Assets		
Total assets for reportable segments	**30,911**	29,382
Intercompany	**(14,013)**	(14,586)
Group/unallocated	**2,551**	2,551
Consolidated total assets	**19,449**	17,347
Liabilities		
Total liabilities for reportable segments	**22,735**	23,804
Intercompany	**(14,013)**	(14,586)
Consolidated total liabilities	**8,722**	9,218

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	2017 £000	2016 £000
United Kingdom	**218**	188
Europe	**18,696**	5,606
Americas	**14,602**	4,132
Rest of the world	**1,857**	3,654
	35,373	13,580

Split of non-current assets by location	2017 £000	2016 £000
United Kingdom	**4,459**	4,519
Europe	**107**	94
Americas	**1,255**	1,094
Rest of the world	**138**	5
	5,959	5,712

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 2017

4 Operating profit/(loss)

	2017 £000	2016 £000
Revenue	**35,373**	13,580
Other operating income	**(24)**	(40)
Cost of sales	**23,315**	9,936
Wages and salaries	**5,479**	5,566
Social security costs	**637**	670
Pension costs	**338**	363
Share-based payments	**22**	31
Exceptional redundancy and resignation costs	**-**	217
Staff costs	**6,476**	6,847
Amortisation of intangibles	**110**	15
Depreciation	**658**	655
Depreciation and amortisation	**768**	670
Other operating charges	**3,136**	3,147
Total operating costs	**10,380**	10,664
Operating profit/(loss)	**1,702**	(6,980)

5 Exceptional items

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

	2017 £000	2016 £000
Listing on AIM on the London Stock Exchange	**-**	209
Redundancy costs	**-**	217
	-	426

Finance income is stated after crediting exceptional items as follows:

	2017 £000	2016 £000
Revaluation of US Dollar denominated intercompany balance	**740**	-
	740	-

An intercompany relationship exists between the Filtronic Wireless subsidiaries in the UK and the US. The balance is denominated in US Dollars and is owed to the UK subsidiary. The US Dollar has seen a significant strengthening during the year which has led to a large credit on revaluation in the UK entity.

6 Operating items

	2017 £000	2016 £000
Operating profit/(loss) is stated after charging/(crediting):		
Depreciation of property, plant and equipment	**658**	655
Research and development costs before capitalisation/amortisation of development costs	**3,119**	4,294
Development costs capitalised	**-**	(286)
Amortisation of intangibles	**110**	15
Operating lease rentals	**383**	381
Foreign exchange loss/(gain)	**123**	(16)

7 Auditor's remuneration

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

	2017 £000	2016 £000
Company auditor:		
Audit of the Group and Company financial statements	**12**	11
Company auditor and their associates:		
Audit of subsidiaries' financial statements pursuant to legislation	**44**	40
Other services pursuant to such legislation	**2**	2
Other services	**2**	42
	60	95

8 Employees

The average number of employees comprised:

	2017 Number	2016 Number
Manufacturing	**56**	56
Research and development	**44**	51
Sales	**5**	4
Administration	**11**	17
	116	128

The Directors are related parties.

Notes to the financial statements

for the year ended 31 May 2017

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 26. The compensation of the Directors was:

	2017 £000	2016 £000
Salary or fees	**331**	307
Bonuses	**181**	50
Benefits	**19**	13
Total remuneration excluding pension contributions and share-based payments	**531**	370
Pension contributions	**19**	13
	550	383

The schedule 5 disclosure requirements are included in the Directors remuneration report. The elements that are audited are identified as such in that report.

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 (2016: £432,000) and a royalty charge of 1 percent of Filtronic Wireless sales to the Filtronic Wireless business of £305,000 (2016: £90,000). 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 20 and 21 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 26.

11 Finance costs

	2017 £000	2016 £000
Interest costs on invoice discounting facilities	**233**	59
Termination fee of Faunus Group International ("FGI") invoice discounting facility	**54**	-
	287	59

12 Finance income

	2017 £000	2016 £000
Revaluation of US Dollar denominated intercompany balance	**740**	-
	740	-

13 Taxation

Recognised in the income statement	2017 £000	2016 £000
Current tax credit		
Overseas taxation in the period	62	40
Adjustment in respect of prior year — R&D tax credit	(843)	(1,128)
Total current tax credit	(781)	(1,088)
Deferred tax credit		
Origination of temporary differences	(181)	(834)
Total deferred tax credit	(181)	(834)
Income tax credit	(962)	(1,922)

The reconciliation of the effective tax rate is as follows:

	2017 £000	2016 £000
Profit/(loss) before taxation	2,155	(7,039)

		2017 £000		2016 £000
Profit/(loss) before taxation multiplied by standard rate of corporation tax in the UK	20%	427	(20%)	(1,408)
Disallowable items	5%	98	(1%)	(57)
Income not taxable	(9%)	(196)	1%	64
Deferred tax asset not recognised	16%	335	17%	1,181
Impact of tax rate change on deferred tax	4%	83	-	-
Enhanced R&D tax credit	(17%)	(357)	-	-
Adjustment in respect of prior year R&D tax credit	(39%)	(843)	(16%)	(1,128)
Foreign tax not at UK rate	12%	262	(4%)	(275)
Recognition of deferred tax asset from prior year	(36%)	(771)	(4%)	(299)
Taxation	(44%)	(962)	(27%)	(1,922)

The main rate of UK corporation tax was reduced from 20 percent to 19 percent on 1 April 2017 giving an effective tax rate for the financial year of 19.83 percent. This will reduce to 17 percent from 1 April 2020. The deferred tax assets recognised in the year have been calculated at the rates of their expected use.

14 Earnings/(loss) per share

	Group	
	2017 £000	2015 £000
Profit/(loss) for the period	3,117	(5,117)

	000	000
Basic weighted average number of shares	206,910	160,070
Dilution effect of share options	2,839	-
Diluted weighted average number of shares	209,749	160,070
Basic earnings/(loss) per share	1.51p	(3.20p)
Diluted earnings/(loss) per share	1.49p	(3.20p)

Notes to the financial statements

for the year ended 31 May 2017

15 Investments in subsidiaries

	Company investments in subsidiaries £000
Cost	
At 1 June 2015, 31 May 2016 and 31 May 2017	**21,110**
Impairment	
At 1 June 2015, 31 May 2016 and 31 May 2017	**10,546**
Carrying amount at 1 June 2015, 31 May 2016 and 31 May 2017	**10,564**

The Company's subsidiaries are related parties.

The subsidiaries at 31 May 2017, which were owned by Filtronic plc, were as follows:

Name of subsidiary	Country of incorporation	Description of equity held	Proportion held	Activity
Filtronic Broadband Limited[1]	UK	1p ordinary shares	100%	Design and manufacture of microwave products for telecommunication systems
Filtronic Holdings UK Limited[1]	UK	£1 ordinary shares	100%	Holding Company
Isotek (Holdings) Limited[1]	UK	1p ordinary shares	100%	Holding Company
Filtronic Comtek (UK) Limited[1]	UK	12.2787p ordinary shares	100%	Dormant Company
Owned by Filtronic Holdings (UK) Limited:				
Filtronic Wireless AB[3]	Sweden	SEK1 ordinary shares	100%	Design and manufacture of antenna products for telecommunication systems
Owned by Isotek (Holdings) Limited:				
Filtronic Wireless Limited[1]	UK	1p ordinary shares	100%	Design and manufacture of filters and related products for telecommunication systems
Filtronic Wireless Inc.[2]	USA	$1 ordinary shares	100%	Design and manufacture of filters and related products for telecommunication systems
Isotek Limited[1]	UK	1p ordinary shares	100%	Dormant Company
Owned by Filtronic Wireless Limited:				
Isotek Hong Kong Holdings Limited[4]	Hong Kong	HK$1 ordinary shares	100%	Holding Company
Owned by Isotek Hong Kong Holdings Limited:				
Isotek Suzhou Limited[5]	China	USD $350,000 paid in share capital	100%	Design and manufacture of filters and related products for telecommunication systems
Filtronic Wireless Suzhou[5]	China	USD $162,000 paid in share capital	100%	Design and manufacture of filters and related products for telecommunication systems

[1] Filtronic House, 3 Airport West, Lancaster Way, Yeadon, Leeds, West Yorkshire, LS19 7ZA, UK

[2] 700 Marvel Road, Salisbury, Maryland, 21801, USA

[3] Antennvägen 6A, 18766, Täby, Sweden

[4] RM 1501, C1 Grand Millennium Plaza (lower block), 181 Queen's Road Central, Hong Kong

[5] RM 802, Block 1, No.135 Wangdun Road, SIP, Suzhou, China

16 Goodwill and other intangibles

Group	Goodwill £000	Other intangibles (core technology) £000	Licence agreement £000	Software costs £000	Development costs £000	Total £000
Cost						
At 1 June 2015	3,235	10,884	-	-	-	14,119
Additions	-	-	160	-	286	446
At 31 May 2016	3,235	10,884	160	-	286	14,565
Reclassification of software costs	-	-	-	567	-	567
At 31 May 2017	**3,235**	**10,884**	**160**	**567**	**286**	**15,132**
Amortisation						
At 1 June 2015	-	10,884	18	-	-	10,902
Provided in year	-	-	15	-	-	15
At 31 May 2016	-	10,884	33	-	-	10,917
Provided in year	-	-	15	-	95	110
Reclassification of software costs	-	-	-	515	-	515
At 31 May 2017	**-**	**10,884**	**48**	**515**	**95**	**11,542**
Carrying amount at 1 June 2015	3,235	-	142	-	-	3,377
Carrying amount at 31 May 2016	3,235	-	127	-	286	3,648
Carrying amount at 31 May 2017	**3,235**	**-**	**112**	**52**	**191**	**3,590**

The Company accounts include the licence agreements for £112,000 and £31,000 of software costs (2016: licence agreements £127,000, software costs £nil).

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 percent was applied to the projections together with cost inflation of 3 percent. A perpetuity factor has been applied based on the year to 31 May 2021; and
- The Group's discount rate of 12 percent (2016:12 percent) 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 Tilt ("RET") licence to enable the use of RETs in the antenna products.

Software costs have historically been held in property, plant and equipment under the category 'computers'. Due to the immaterial level of the net book value the costs have never been reclassified. However, the Directors have taken the decision in the year to reclassify software costs so the Group is fully compliant with IFRS.

The accounting policy for intangible assets relating to development costs 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 2017

17 Property, plant and equipment

	Group plant and equipment £000	Company plant and equipment £000
Cost		
At 1 June 2015	8,324	45
Additions	172	7
Disposals	(1,118)	-
Currency translation movement	70	-
At 31 May 2016	7,448	52
Additions	811	-
Disposals	(556)	-
Reclassification of software costs	(567)	(52)
Currency translation movement	119	-
At 31 May 2017	**7,255**	**-**
Depreciation and impairment		
At 1 June 2015	6,528	6
Depreciation	655	8
Disposals	(1,008)	-
Currency translation movement	43	-
At 31 May 2016	6,218	14
Depreciation	658	-
Disposals	(556)	-
Reclassification of software costs	(515)	(14)
Currency translation movement	96	-
At 31 May 2017	**5,901**	**-**
Carrying amount at 1 June 2015	1,796	39
Carrying amount at 31 May 2016	1,230	38
Carrying amount at 31 May 2017	**1,354**	**-**

18 Deferred tax

	Group	
Deferred tax assets	**2017 £000**	2016 £000
Opening balance	**834**	-
Tax losses recognised	**264**	834
Effect of change in UK corporation tax rate	**(83)**	-
Closing balance	**1,015**	834

Deferred tax assets within the Filtronic Wireless subsidiaries in the UK and US have been recognised as the Directors consider that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such deductions are reversed when the probability of future taxable profits improves.

18 Deferred tax (continued)

Deferred tax assets which have not been recognised:	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Depreciation in advance of capital allowances	**2,110**	2,109	**455**	455
Tax losses carried forward	**12,944**	11,969	**9,274**	9,161
Share options deferment	**80**	47	**80**	47
	15,134	14,125	**9,809**	9,663

The deferred tax assets have not been recognised where the Directors consider that it is unlikely that future taxable profits will be available against which they can be used. There is no expiry date for these unrecognised deferred tax assets which are reassessed at each reporting date.

19 Inventories

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Raw materials	**2,749**	3,158	**-**	-
Work in progress	**79**	234	**-**	-
Finished goods	**1,070**	316	**-**	-
	3,898	3,708	**-**	-
Inventory provision	**(1,649)**	(2,023)	**-**	-
Inventories are stated net of provision	**2,249**	1,685	**-**	-

Raw materials, consumables and changes in finished goods and work in progress recognised in cost of sales in the year amounted to £22,668,000 (2016: £9,564,000).

The amount charged to the income statement in the year in respect of write downs of inventories is £70,000 (2016: £636,000). The amount credited to the income statement in the year in respect of reversals of write downs of inventories is £nil (2016: £nil).

20 Trade and other receivables

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade receivables	**8,079**	7,457	**-**	-
Group receivables	**-**	-	**12,426**	12,996
Other receivables and prepayments	**564**	1,503	**46**	43
	8,643	8,960	**12,472**	13,039

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 2017

21 Trade and other payables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade payables	6,382	6,051	24	113
Group payables	-	-	4,914	4,914
Other payables and accruals	1,679	1,244	492	367
	8,061	7,295	5,430	5,394

22 Provisions

	Group		Company	
Warranty provision	2017 £000	2016 £000	2017 £000	2016 £000
Opening balance	161	101	-	-
Used during the year	(11)	(4)	-	-
Released unused during the year	(36)	(31)	-	-
Charge for the year	361	95	-	-
Closing balance	475	161	-	-

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	2017 £000	2016 £000	2017 £000	2016 £000
Opening balance	-	10	-	10
Released unused during the year	-	(10)	-	(10)
Charge for the year	70	-	-	-
Closing balance	70	-	-	-

The Group leases facilities at five sites in the UK, US, China and Sweden with each lease requiring the site to be restored to its original condition.

23 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.

24 Pension costs

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Defined contribution schemes	338	363	33	25

25 Share capital

	Group and Company Ordinary shares of 0.1p each	
	Number	£000
At 1 June 2015	106,876,986	10,688
Shares issued in year	100,033,160	100
At 1 June 2016 and 31 May 2017	**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.

26 Share premium

	Group and Company
At 1 June 2015	6,199
Premium on share issue	4,441
At 1 June 2016 and 31 May 2017	**10,640**

27 Translation reserve

	Group £000
At 1 June 2015	(200)
Currency translation movement arising on consolidation	(55)
At 1 June 2016	(255)
Currency translation movement arising on consolidation	(541)
At 31 May 2017	**(796)**

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations.

28 Dividends

The Directors are not proposing to pay a dividend for the year ended 31 May 2017 (2016: nil).

29 Retained earnings

	Group £000	Company £000
At 1 June 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)
Profit/(loss) for the period	3,117	(631)
Share-based payments	22	5
At 31 May 2017	**(9,905)**	**(3,555)**

Notes to the financial statements

for the year ended 31 May 2017

30 Share options

There are six sharesave plans that have been offered to employees at the date of this report. The first four 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 4	**Weighted average exercise price 2017**	**Number of options 2017**	Weighted average exercise price 2016	Number of options 2016
Outstanding at the beginning of the period	**56.4p**	**22,912**	56.4p	64,652
Exercised during the period	**56.4p**	**-**	56.4p	-
Cancelled during the period	**56.4p**	**(22,912)**	56.4p	(41,740)
Outstanding at the end of the period	**56.4p**	**-**	56.4p	22,912
Exercisable at the end of the period	**56.4p**	**-**	56.4p	-

The fourth sharesave scheme was offered to employees in March 2013 and has now closed.

Sharesave Plan - Scheme 5	**Weighted average exercise price 2017**	**Number of options 2017**	Weighted average exercise price 2016	Number of options 2016
Outstanding at the beginning of the period	**31.0p**	**84,189**	31.0p	796,290
Granted during the period	**31.0p**	**-**	31.0p	-
Cancelled during the period	**31.0p**	**(5,806)**	31.0p	(712,101)
Outstanding at the end of the period	**31.0p**	**78,383**	31.0p	84,189
Exercisable at the end of the period	**31.0p**	**-**	31.0p	-

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

The options outstanding at 31 May 2017 for Scheme 5 have a weighted average remaining contractual life of 0.5 years. The share options granted during the year to May 2014 have an exercise price of 31.0p and have an exercise period from 1 July to 31 December 2017.

Sharesave Plan - Scheme 6	**Weighted average exercise price 2017**	**Number of options 2017**	Weighted average exercise price 2016	Number of options 2016
Outstanding at the beginning of the period	**5.2p**	**-**	-	-
Granted during the period	**5.2p**	**6,244,854**	-	-
Cancelled during the period	**5.2p**	**(165,565)**	-	-
Outstanding at the end of the period	**5.2p**	**6,079,289**	-	-
Exercisable at the end of the period	**5.2p**	**-**	-	-

A sixth sharesave scheme was offered to employees in June 2016.

The options outstanding at 31 May 2017 for Scheme 6 have a weighted average remaining contractual life of 2.5 years. The share options granted during the year to May 2017 have an exercise price of 5.2p and have an exercise period from 1 June to 30 November 2019.

30 Share options (continued)

Management incentive plans

The options granted in the year to directors, 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 2017:

Ordinary shares of 0.1p	Date granted	Earliest date exercisable	Latest date exercisable	Exercise price
5,275,000	01/03/2016	01/03/2017	29/02/2026	5.4p
500,000	11/04/2016	11/04/2017	10/04/2026	8.5p
1,150,000	30/09/2016	30/09/2017	29/09/2026	11.6p
6,925,000				

The weighted average price of options of the outstanding options under this scheme at 31 May 2017 was 6.6p

	Number of share options 2017	Number of share options 2016
Outstanding at the beginning of the period	**7,006,624**	745,072
Granted during the period	**1,250,000**	7,400,000
Cancelled during the period	**(1,331,624)**	(1,138,448)
Outstanding at the end of the period	**6,925,000**	7,006,624
Exercisable at the end of the period	**-**	156,624

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for the year ended 31 May 2017

31 Share-based payments

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Share options expense	**22**	40	**5**	9
Non-vesting LTIP share award	**-**	(9)	**-**	(9)
	22	31	**5**	-

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 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Number of share options granted	**7,494,854**	7,400,000	**1,215,301**	1,850,000
Weighted average share price	**6.2p**	5.4p	**5.2p**	5.4p
Expected volatility	**50%**	50%	**50%**	50%
Expected life	**3.0 years**	3.0 years	**3.0 years**	3.0 years
Risk free interest rate	**0.5%**	0.5%	**0.5%**	0.5%
Weighted average fair value	**1.0p**	1.0p	**1.0p**	1.0p

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

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 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Less than one year	**264**	354	**-**	-
Between one and five years	**538**	688	**-**	-
More than five years	**40**	111	**-**	-
	904	1,153	**-**	-

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

33 Capital expenditure commitments

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Capital expenditure contracted for at the balance sheet date but not provided in the financial statements	**93**	42	**-**	4

34 Analysis of net funds/(debt)

	1 June 2016 £000	Cash flow £000	Other changes £000	31 May 2017 £000
Cash and cash equivalents	990	1,585	23	**2,598**
Interest bearing borrowings	(1,270)	1,270	-	**-**
	(280)	2,855	23	**2,598**

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

	2017 £000	2016 £000
Movement in cash and cash equivalents	**1,585**	(40)
Cash flow from decrease/(increase) in debt financing	**1,270**	(950)
Effect of exchange rate fluctuations	**23**	(57)
Movement in net funds/(debt)	**2,878**	(1,047)
Net funds/(debt) at 1 June 2016	**(280)**	767
Net funds/(debt) at 31 May 2017	**2,598**	(280)

The Group has invoice discounting facilities of £3.0m with Barclays Bank plc enabling it to borrow money against the UK debtor book.

Notes to the financial statements

for the year ended 31 May 2017

35 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 cash of £2,598,000 whilst the Company has net funds of £124,000. The Group has access to a £3.0m sales invoicing facility with Barclays Bank having successfully secured a permanent increase from £2.0m in the year.

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 percent of the UK entities' debtors denominated in US Dollars and Sterling up to a value of £3.0m.

The amount of cash available to the Group and the headroom available on debt facilities results in a low liquidity risk.

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	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Cash and cash equivalents	**2,598**	990	**124**	125
Trade and other receivables	**8,643**	8,960	**12,472**	13,039
	11,241	9,950	**12,596**	13,164

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

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Barclays Bank plc	**1,800**	196	**124**	125
Bank of America Corporation	**719**	745	**-**	-
China CITIC Bank International Limited	**58**	47	**-**	-
Skandinaviska Enskilda Banken AB	**21**	2	**-**	-
	2,598	990	**124**	125

35 Financial instruments (continued)

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

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

The Company has no trade receivables.

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

	Group	
	2017 £000	2016 £000
Customer one	**6,070**	3,966
Customer two	**524**	834
Customer three	**448**	657
Other customers	**1,037**	2,000
	8,079	7,457

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

	Group	
	2017 £000	2016 £000
Not past due	**7,651**	7,298
Past due less than three months	**405**	133
Past due more than three months	**23**	26
	8,079	7,457

No trade receivables have been provided for in either FY2017 or FY2016.

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)

Financials

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for the year ended 31 May 2017

35 Financial instruments (continued)

Foreign currency risk

The Group's and Company's reporting currency is Sterling, which is also the Company's functional currency. The functional currencies of the subsidiaries are Sterling, US Dollar, Chinese Yuan and Swedish Krona.

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

The Group has generated a surplus of US Dollars during the year due to an increasing number of projects being supplied in US Dollars. Whilst the Group's major supplier invoices in US Dollars, giving some degree of a natural hedge, it is not adequate to offset the exposure on currency risk. Therefore, the Group has used forward foreign exchange 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.

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

	Group							
	2017				2016			
	SEK £000	EUR £000	RMB £000	USD £000	SEK £000	EUR £000	RMB £000	USD £000
Cash and cash equivalents	**17**	**1**	**49**	**1,945**	2	-	47	759
Interest bearing borrowings	**-**	**-**	**-**	**-**	-	-	-	(1,275)
Trade receivables	**-**	**10**	**796**	**7,237**	-	9	834	6,559
Trade payables	**(45)**	**(60)**	**(555)**	**(4,825)**	-	(152)	(551)	(4,889)
Net exposure	**(28)**	**(49)**	**290**	**4,357**	2	(143)	330	1,154

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 2017 then the Group operating profit would have been £103,000 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 £3.0m on the UK. At 31 May 2017 the Group had net cash of £2,598,000 and the Company had a cash balance of £124,000. The Group and Company have sufficient cash to cover working capital requirements and capital expenditure plans.

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

36 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

Registered office
Filtronic plc
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Auditor
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Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Bankers
Barclays Bank plc
10 Market Street
Bradford
BD1 1NR

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

Annual General Meeting
The Company's Annual General Meeting will be held at 11am on Thursday, 28 September 2017 at the offices of Panmure Gordon & Co, 1 New Change, London, EC4M 9AF

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.