



30 January 2017

**FILTRONIC PLC**  
("Filtronic", the "Company" or the "Group")

**HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 NOVEMBER 2016**

Filtronic plc (AIM: FTC), the designer and manufacturer of microwave electronics products for the wireless telecoms infrastructure market and adjacent markets, announces its half year results for the six months ended 30 November 2016 ("H1 2017").

**Financial Summary**

- Revenue of £21.6m (H1 2016: £4.5 m)
- Filtronic Wireless sales of £18.7m (H1 2016: £1.9m)
- Filtronic Broadband sales of £2.9m (H1 2016: £2.6m)
- Adjusted operating profit\* of £1.8m (H1 2016: £4.1m loss)
- Operating profit of £1.8m (H1 2016: £4.3m loss)
- Net cash of £0.8m (31 May 2016: £0.3m Net Debt)
- Net cash inflow from operating activities £1.4m (H1 2016: £2.2m outflow)

\*Operating profit/(loss) before amortisation of intangibles, exceptional items, research and development cost capitalisation/amortisation and finance costs.

**Highlights**

- Filtronic Wireless successfully ramped antenna business to meet all delivery obligations.
- Filtronic Wireless saw improved demand for mission critical public safety filters and combiners.
- Filtronic Wireless sales team strengthened.
- Filtronic Broadband achieved continued growth in demand for our flagship E-band product, Orpheus.
- Filtronic Broadband signed a multi-year supply agreement with a major defence contractor for transmit receive modules.

**Commenting on the outlook, Reg Gott, Chairman, said:**

"We have made good progress in a relatively short period to return the business to profitability and we are encouraged with the growing opportunity pipeline."

**Enquiries**

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**Notes:**

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

## Chairman's Statement

The results for the half year ended 30 November 2016 saw a marked improvement in the trading performance of the Group with sales increasing sharply, particularly in Filtronic Wireless. This is a direct result of the actions taken over the past 18 months to restructure the business so that it has a sales and product strategy targeted at segments of our chosen markets where we can deliver more value to our customers and make improved profit margins. This more focused strategy also means that we have a more efficient overhead structure.

The improved revenues, better product margins and lower overheads have enabled us to report a return to profitability and a cash inflow from operations. However, we would caution that the phasing of customer order fulfilment for FY 2017 has been significantly biased to the first half and, consequently, we expect revenues to be lower in H2 2017.

Filtronic Broadband and Filtronic Wireless both continue to invest in sales and marketing activities and we have seen an improvement in our opportunity pipeline. We have set ourselves the objectives of diversifying our customer base and broadening our product range in order to reduce our dependence on mobile telecommunications infrastructure Original Equipment Manufacturers ("OEMs") whose business has historically been very lumpy and difficult to forecast. We were delighted to report recently that Filtronic Broadband had secured its first major supply agreement in the defence and aerospace sector. We expect initial, small revenues from this new multi-year agreement to start in H2 2017 with more substantial contributions from FY 2018.

The Board has continued to assess the impact on the Group of the UK's decision to leave the European Union and believes that given the international nature of our trading, the effect on the Group will be relatively minor. We have, however, seen a modest gain from the fall in the value of sterling as the majority of our sales revenue is in US dollars.

In conclusion, we have made good progress in a relatively short period to return the business to profitability and we are encouraged by the growing opportunity pipeline. We are confident that we are on the right product and technology pathways, and see many exciting opportunities in our chosen target markets.

The bulk of the initial inventory-building orders received last year from our lead customer for the new ultra wide band antenna have been successfully supplied and consequently, in line with our internal planning, we anticipate a slower second half. We are working hard to secure new customers for the latest generation of our antenna product range and have made good progress in building a pipeline of opportunities. However, we are mindful that until our customer and product base are further widened we are likely to see ongoing short-term volatility in our revenues and profitability.

Reg Gott, Chairman

## Chief Executive's Report

The results for the half year ended 30 November 2016 were a marked improvement over the previous year with total sales increased to £21.6 million (H1 2016: £4.5 million). Sales increased in both Filtronic Broadband, £2.9 million (H1 2016: £2.6 million) and Filtronic Wireless, £18.7 million (H1 2016: £1.9 million). The increased sales revenue, gross margin improvement and overhead cost reductions resulted in a return to profitability with operating profit of £1.8 million (H1 2016: £4.3 million loss). Filtronic Wireless generated an operating profit of £2.4 million (H1 2016: £2.7 million loss), whilst Filtronic Broadband achieved a significantly reduced operating loss of £0.2 million (H1 2016: £1.1 million). Central overheads decreased to £0.4 million (HY 2016: £0.5 million) although the prior year included £0.2m of costs relating to the Company's move to AIM.

### Filtronic Wireless

Filtronic Wireless is focused on selling integrated antennas, filters, combiners and associated RF conditioning products to the mobile telecommunication infrastructure and mission critical public safety markets.

Over the recent past our focus has been on developing OEM business in the mobile telecommunication infrastructure market and during the first half of our financial year we delivered significant volumes of integrated antennas to our lead OEM customer. This has been the main driver of our growth so far this year and the successful execution of this programme has been a major achievement for the business that helps establish our credibility in this segment of the market. As noted in the Chairman's Statement, the profile of orders for the current financial year has been weighted to the first half and therefore we expect a reduction of volumes in the second half as the current orders for this product come to an end.

Having strengthened our sales team, we have recently engaged with several mobile network operators to introduce our new antenna products. Whilst these engagements are at a relatively early stage we have received positive feedback and interest in our innovative technology approach that offers significant operational advantages over our competitors.

New spectrum releases in the US (600 MHz) and Europe (700 MHz and 1400 MHz) to increase network capacity is expected to generate further infrastructure equipment expenditure and we will be releasing new, even more advanced, antennas that address these opportunities at the Mobile World Congress exhibition at the end of February.

Sales of our traditional filter and combiner products improved in the half, however, we continue to see price erosion and significant competition from low cost, vertically integrated Asian suppliers in this part of the market. We continue to expect to see revenues and volumes of these products reducing over time as the industry progressively transitions to integrated antenna solutions, where we are now well positioned.

Being a small player in the mobile telecommunications infrastructure market presents both opportunities and challenges. Whilst we cannot, and have no intention to, compete on price alone, our ability to offer technical solutions that reduce total cost of ownership as well as offering superior levels of customer service and flexibility gives us a unique position as a Western based supplier to our OEM customers.

We have recently seen a resurgence of activity in the public safety communications market for mission critical filters and combiners. It is our intention to develop and widen our product offering to this market as it offers a particularly good fit to our technology, scale and competences.

### Filtronic Broadband

During H1 2017 Filtronic Broadband has made good progress. We have seen an encouraging growth in sales of Orpheus E-band transceivers and other new products and services which has more than offset the reduction of revenue from legacy products. Overall sales from newly introduced products and services were a healthy 89% (HY 2016: 10%) of the total. This change in sales mix has enabled Filtronic Broadband to achieve improved product margins which along with continued management of overhead expenditure has led to a significantly reduced operating loss in the period.

Demand within the mobile telecommunications infrastructure market is primarily driven by network backhaul requirements. Industry forecasts continue to indicate that demand will increase in this area as network capacity is consumed by ever increasing data traffic from services such as video streaming.

Filtronic Broadband sales are significantly concentrated with our lead customer and we have made a sustained effort to diversify our E-band customer base by offering Orpheus to other potential clients in both the mobile telecommunications infrastructure and defence and aerospace markets. We have sold several evaluation samples to potential clients and some of these opportunities are now nearing commercialisation. The need to win additional volume customers has been reaffirmed by our lead customer recently announcing a major restructuring of its operations. Consequently, we have been advised that its demand will be suppressed in the coming months as it implements its restructuring.

In addition to our Orpheus E-band transceivers we offer manufacturing services based on our specialist capabilities. We have been working with several potential clients and are pleased to have been selected by a major defence equipment OEM as a multi-year supply partner for Transmit Receive Modules. This is a significant development for the business both from a trading and a strategic perspective as it positions us as a credible supplier to an industry that has more long term visibility and stability than our traditional telecommunications market.

With most of our revenues now being generated by recently introduced products and services from a more diversified and growing customer base, the outlook for Filtronic Broadband has improved and we will continue to focus on bringing this business to profitability as quickly as possible.

## **5G**

There has been increased media reporting regarding the development of 5G networks. Our current view is that it will be many years before 5G networks are commercially deployed. Standards for 5G are yet to be agreed and whilst the consensus view is that higher frequency networks will be required to support the data rates envisaged by 5G, the frequency bands required have not yet been settled.

In the near-term, substantial additional capacity is required in the existing 4G/LTE networks and this is where Filtronic will continue to focus. However, we are well placed, with our knowledge of advanced antennas and high frequency systems, to participate and capitalise on 5G opportunities at the appropriate time.

## **Summary and outlook**

We have made good progress over the last year; with Filtronic Wireless achieving profitability and reduced losses at Filtronic Broadband, the business is now in a healthier position than it has been for several years.

Whilst we expect lower revenues in the H2 2017, we are encouraged by the scale and quality of opportunities that we are working on and we are optimistic over prospects for the medium to long term outlook for both Filtronic Wireless and Filtronic Broadband.

Rob Smith, CEO  
30 January 2017

## Condensed Consolidated Interim Income Statement

For the period ended 30 November 2016

|  |   | 6 months<br>Ended<br>30 November<br>2016<br>(Unaudited)<br>£000 | 6 months<br>Ended<br>30 November<br>2015<br>(Unaudited)<br>£000 | Year<br>Ended<br>31 May<br>2016<br>(Audited)<br>£000 |
|--|---|---|---|--|
| <b>Revenue</b>   |   | <b>21,608</b><br>=====  | 4,473<br>=====  | 13,580<br>=====                                      |
| <b>Adjusted operating profit/(loss)*</b>                             |   | <b>1,797</b>  | (4,070)   | (6,840)  |
| Amortisation of intangibles  |   | (47)  | -   | -  |
| Capitalisation of development costs                                  |   | -   | -   | 286  |
| Exceptional items  | 5 | -   | (196)   | (426)  |
| <b>Operating profit/(loss)</b>                                       |   | <b>1,750</b>  | (4,266)   | (6,980)  |
| Finance costs  |   | (45)  | -   | (59)   |
| <b>Profit/(loss) before taxation</b>                                 |   | <b>1,705</b>  | (4,266)   | (7,039)  |
| Taxation   | 6 | (275)   | (21)  | 1,922  |
| <b>Profit/(loss) for the period</b>                                  |   | <b>1,430</b><br>=====   | (4,287)<br>=====  | (5,117)<br>=====                                     |
| <b>Basic and diluted earnings/(loss) per share (stated in pence)</b> |   |   |   |  |
| Basic earnings/(loss) per share                                      | 7 | 0.69p   | (3.76)p   | (3.20)p  |
| Diluted earnings/(loss) per share                                    | 7 | 0.69p   | (3.76)p   | (3.20)p  |
|  |   | =====   | =====   | =====  |

\*Operating profit/(loss) before amortisation of intangibles, exceptional items, research and development cost capitalisation/amortisation and finance costs.

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

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

**Condensed Consolidated Interim Statement of Comprehensive Income**

For the period ended 30 November 2016

|  | <b>6 months<br/>Ended<br/>30 November<br/>2016<br/>(Unaudited)<br/>£000</b> | 6 months<br>ended<br>30 November<br>2015<br>(Unaudited)<br>£000 | Year<br>ended<br>31 May<br>2016<br>(Audited)<br>£000 |
|--|---|---|--|
| <b>Profit/(loss) for the period</b>  | <b>1,430</b>  | (4,287)   | (5,117)  |
| <i>Items that are or may be subsequently reclassified to profit and loss</i> |   |   |  |
| Currency translation movement arising on consolidation                       | <b>202</b>  | (39)  | (55)   |
| <b>Other comprehensive income/(expense)</b>                                  | <b>202</b>  | (39)  | (55)   |
| <b>Total comprehensive income for the period</b>                             | <b>1,632</b>  | (4,326)   | (5,172)  |

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

## Condensed Consolidated Interim Balance Sheet

At 30 November 2016

|                                | 30 November<br>2016<br>(Unaudited)<br>£000 | 30 November<br>2015<br>(Unaudited)<br>£000 | 31 May<br>2016<br>(Audited)<br>£000 |
|--------------------------------|--|--|-------------------------------------|
| Note                           |  |  |                                     |
| <b>Non-current assets</b>      |  |  |                                     |
| Goodwill and other intangibles | 3,634                                      | 3,396                                      | 3,648                               |
| Property, plant and equipment  | 1,175                                      | 1,490                                      | 1,230                               |
| Deferred tax                   | 6<br>582                                   | -  | 834                                 |
|                                | <u>5,391</u>                               | <u>4,886</u>                               | <u>5,712</u>                        |
| <b>Current assets</b>          |  |  |                                     |
| Inventories                    | 1,927                                      | 1,760                                      | 1,685                               |
| Trade and other receivables    | 12,369                                     | 3,233                                      | 8,960                               |
| Cash and cash equivalents      | 1,680                                      | 2,679                                      | 990                                 |
|                                | <u>15,976</u>                              | <u>7,672</u>                               | <u>11,635</u>                       |
| <b>Total assets</b>            | <u>21,367</u>                              | <u>12,558</u>                              | <u>17,347</u>                       |
| <b>Current liabilities</b>     |  |  |                                     |
| Trade and other payables       | 9,972                                      | 3,748                                      | 7,295                               |
| Provisions                     | 8<br>448                                   | 141  | 161                                 |
| Deferred Income                | 232  | 21   | 460                                 |
| Interest bearing borrowings    | 920  | -  | 1,270                               |
|                                | <u>11,572</u>                              | <u>3,910</u>                               | <u>9,186</u>                        |
| <b>Long term liabilities</b>   |  |  |                                     |
| Deferred income                | 21   | 43   | 32                                  |
|                                | <u>21</u>                                  | <u>43</u>                                  | <u>32</u>                           |
| <b>Total liabilities</b>       | <u>11,593</u>                              | <u>3,953</u>                               | <u>9,218</u>                        |
| <b>Net assets</b>              | <u>9,774</u>                               | <u>8,605</u>                               | <u>8,129</u>                        |
| <b>Equity</b>                  |  |  |                                     |
| Share capital                  | 10,788                                     | 10,778                                     | 10,788                              |
| Share premium                  | 10,640                                     | 10,283                                     | 10,640                              |
| Translation reserve            | (53)                                       | (239)                                      | (255)                               |
| Retained earnings              | (11,601)                                   | (12,217)                                   | (13,044)                            |
| <b>Total equity</b>            | <u>9,774</u>                               | <u>8,605</u>                               | <u>8,129</u>                        |

The total equity is attributable to the equity shareholders of the parent company Filtronic plc.  
Company number 2891064

**Condensed Consolidated Interim Statement of Changes in Equity**

For the period ended 30 November 2016

|   | <b>6 months<br/>Ended<br/>30 November<br/>2016<br/>(Unaudited)<br/>£000</b> | 6 months<br>Ended<br>30 November<br>2015<br>(Unaudited)<br>£000 | Year ended<br>Ended<br>31 May<br>2016<br>(Audited)<br>£000 |
|---|---|---|--|
| Equity at the start of period             | <b>8,129</b>  | 8,729   | 8,729  |
| Total comprehensive income for the period | <b>1,632</b>  | (4,326)   | (5,172)  |
| New shares issued (net of issue costs)    | -   | 4,174   | 4,541  |
| Share-based payments                      | <b>13</b>   | 28  | 31   |
| <b>Equity at the end of period</b>        | <b>9,774</b>  | 8,605   | 8,129  |



## Condensed Consolidated Interim Cash Flow Statement

For the period ended 30 November 2016

|   | 6 months<br>Ended<br>30 November<br>2016<br>(Unaudited)<br>£000 | 6 months<br>Ended<br>30 November<br>2015<br>(Unaudited)<br>£000 | Year<br>Ended<br>31 May<br>2016<br>(Audited)<br>£000 |
|---|---|---|--|
| <b>Cash flows from operating activities</b>           |   |   |  |
| <b>Profit(loss) for the period</b>                    | <b>1,430</b>  | <b>(4,487)</b>  | <b>(5,117)</b>                                       |
| Taxation  | 275   | 21  | (1,922)  |
| Finance income  | 45  | -   | 59   |
|   | -----   | -----   | -----  |
| <b>Operating profit/(loss)</b>                        | <b>1,750</b>  | <b>(4,266)</b>  | <b>(6,980)</b>                                       |
| Share based payments                                  | 13  | 28  | 31   |
| (Profit)/loss on disposal of plant and equipment      | (22)  | (14)  | 76   |
| Tax (paid)/received                                   | (23)  | (30)  | 261  |
| Depreciation  | 335   | 336   | 655  |
| Amortisation of intangibles                           | 47  | -   | 15   |
| Movement in inventories                               | (130)   | (115)   | (25)   |
| Movement in trade and other receivables               | (2,939)   | 4,573   | (175)  |
| Movement in trade and other payables                  | 2,319   | (2,559)   | 603  |
| Movement in provisions                                | 287   | (135)   | 50   |
| Change in deferred income including government grants | (240)   | (41)  | 439  |
|   | -----   | -----   | -----  |
| <b>Net cash from/(used in) operating activities</b>   | <b>1,397</b>  | <b>(2,223)</b>  | <b>(5,050)</b>                                       |
|   | -----   | -----   | -----  |
| <b>Cash flows used in investing activities</b>        |   |   |  |
| Interest paid   | (45)  | -   | (59)   |
| Acquisition of plant and equipment                    | (293)   | (45)  | (172)  |
| Capitalisation of development costs                   | -   | -   | (286)  |
| Proceeds on sale of assets                            | 24  | 14  | 36   |
|   | -----   | -----   | -----  |
| <b>Net cash used in investing activities</b>          | <b>(314)</b>  | <b>(31)</b>   | <b>(481)</b>   |
|   | -----   | -----   | -----  |
| <b>Cash flows (used in)/from financing activities</b> |   |   |  |
| Proceeds from new shares issued (Net of issue costs)  | -   | 4,174   | 4,541  |
| Movement in interest bearing borrowings               | (350)   | (320)   | 950  |
|   | -----   | -----   | -----  |
| <b>Net cash (used in)/from financing activities</b>   | <b>(350)</b>  | <b>3,854</b>  | <b>5,491</b>   |
|   | -----   | -----   | -----  |
| <b>Movement in cash and cash equivalents</b>          | <b>733</b>  | <b>1,600</b>  | <b>(40)</b>  |
| Currency exchange movements                           | (43)  | (8)   | (57)   |
| Opening cash and cash equivalents                     | 990   | 1,087   | 1,087  |
|   | -----   | -----   | -----  |
| <b>Closing cash and cash equivalents</b>              | <b>1,680</b>  | <b>2,679</b>  | <b>990</b>   |
|   | =====   | =====   | =====  |

## Notes to the Condensed Financial Statements

### 1 Company information

Filtronic plc is a company registered and domiciled in the United Kingdom, and is listed on the AIM market of the London Stock Exchange. The Company's registered number is 2891064. The address of the Company's registered office is Filtronic plc, Filtronic House, Unit 3, Airport West, Lancaster Way, Yeadon, West Yorkshire, LS19 7ZA.

Copies of the Company's annual report and interim financial report are available from the Company's registered office or the Company's website at [www.filtronic.co.uk](http://www.filtronic.co.uk).

### 2 Basis of preparation

Whilst the financial information included in this preliminary statement has been prepared on the basis of the requirements of IFRSs in issue, as adopted by the European Union and effective at 30 November 2016, this statement does not itself contain sufficient information to comply with IFRS.

These financial results do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The interim report should be read in conjunction with the annual report 2016, which includes annual financial statements for the year ended 31 May 2016.

The interim financial report for the six months ended 30 November 2016 was approved by the Board on 30 January 2017.

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

The condensed consolidated financial statements for the six months ended 30 November 2016 consolidate the financial statements of the Company and all of its subsidiaries (together referred to as the 'Group'). Transactions between group companies, which are related parties, have been eliminated upon consolidation and therefore do not require disclosure.

The condensed consolidated financial statements for the six months ended 30 November 2016 and comparative period have not been audited.

The comparative figures for the financial year ended 31 May 2016 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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.

### 3 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The accounting estimates and judgements that have a significant effect on the financial statements are considered below.

#### **Goodwill impairment**

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

#### **Deferred tax asset**

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

#### **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.

#### **Inventory**

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

#### **Debtors**

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

#### **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.

#### 4 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 interim reporting information and management structures within the Group. The Group has two customers representing individually over 10% each and in aggregate over 85% of revenue.

The Group operates within two trading business segments

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

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

|  | <b>6 months<br/>Ended<br/>30 November<br/>2016<br/>£000</b> | 6 months<br>Ended<br>30 November<br>2015<br>£000 | Year<br>Ended<br>31 May<br>2016<br>£000 |
|--|---|--|---|
| <b>Revenue</b>                           |   |  |   |
| Filtronic Broadband                      | 2,891   | 2,577  | 4,618                                   |
| Filtronic Wireless                       | 18,717  | 1,896  | 8,962                                   |
|  | -----   | -----  | -----                                   |
|  | <b>21,608</b>   | 4,473  | 13,580                                  |
|  | =====   | =====  | =====                                   |
| <b>Adjusted operating profit/(loss)*</b> |   |  |   |
| Filtronic Broadband                      | (148)   | (1,085)  | (1,723)                                 |
| Filtronic Wireless                       | 2,387   | (2,694)  | (4,514)                                 |
| Central Services                         | (442)   | (291)  | (603)                                   |
|  | -----   | -----  | -----                                   |
| <b>Adjusted operating profit/(loss)</b>  | <b>1,797</b>  | (4,070)  | (6,840)                                 |
| Amortisation of intangible assets        | (47)  | -  | -                                       |
| Capitalisation of development costs      | -   | -  | 286                                     |
| Exceptional items                        | -   | (196)  | (426)                                   |
|  | -----   | -----  | -----                                   |
| <b>Operating profit/(loss)</b>           | <b>1,750</b>  | (4,266)  | (6,980)                                 |
| Finance costs                            | (45)  | -  | (59)                                    |
|  | -----   | -----  | -----                                   |
| <b>Profit/(loss) before taxation</b>     | <b>1,705</b>  | (4,266)  | (7,039)                                 |
|  | =====   | =====  | =====                                   |

\*Operating profit/(loss) before amortisation of intangibles, exceptional items, research and development cost capitalisation/amortisation and finance costs.

##### Revenue by Destination

|                   | <b>6 months<br/>Ended<br/>30 November<br/>2016<br/>£000</b> | 6 months<br>Ended<br>30 November<br>2015<br>£000 | Year<br>Ended<br>31 May<br>2016<br>£000 |
|-------------------|---|--|---|
| <b>Revenue</b>    |   |  |   |
| United Kingdom    | 14  | 111  | 188                                     |
| Europe            | 13,788  | 671  | 5,606                                   |
| Americas          | 7,025   | 1,332  | 4,132                                   |
| Rest of the world | 781   | 2,359  | 3,654                                   |
|                   | -----   | -----  | -----                                   |
|                   | <b>21,608</b>   | 4,473  | 13,580                                  |
|                   | =====   | =====  | =====                                   |

## 5 Exceptional items

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

|                           | <b>6 months<br/>Ended<br/>30 November<br/>2016<br/>£000</b> | 6 months<br>Ended<br>30 November<br>2015<br>£000 | Year<br>Ended<br>31 May<br>2016<br>£000 |
|---------------------------|---|--|---|
| Redundancy costs          | -   | -  | 217                                     |
| Listing on the AIM market | -   | 196  | 209                                     |
|                           | -----   | -----  | -----                                   |
|                           | -   | 196  | 426                                     |
|                           | =====   | =====  | =====                                   |

## 6 Taxation

The majority of the tax charge in the period is the result of profits generated in the Filtronic Wireless business and reflects the reduction of the deferred tax asset by £252,000 due to the utilisation of tax losses brought forward to offset the taxable profit in the year.

A tax charge was also made in the period for Chinese tax relating to the Filtronic Wireless entity in China.

## 7 Basic and diluted earnings/(loss) per share

|  | <b>6 months<br/>Ended<br/>30 November<br/>2016<br/>£000</b> | 6 months<br>Ended<br>30 November<br>2015<br>£000 | Year<br>Ended<br>31 May<br>2016<br>£000 |
|--|---|--|---|
| <b>Profit/(loss) for the period</b>              | <b>1,430</b>  | <b>(4,287)</b>                                   | <b>(5,117)</b>                          |
|  | -----   | -----  | -----                                   |
|  | =====   | =====  | =====                                   |
|  | <b>'000</b>   | <b>'000</b>                                      | <b>'000</b>                             |
| Basic weighted average number of shares          | <b>206,910</b>  | 113,800  | 160,070                                 |
| Dilution effect of share options                 | <b>1,369</b>  | -  | -                                       |
|  | -----   | -----  | -----                                   |
| <b>Diluted weighted average number of shares</b> | <b>208,279</b>  | 113,800  | 160,070                                 |
|  | =====   | =====  | =====                                   |
| <b>Basic earnings/(loss) per share</b>           | <b>0.69p</b>  | (3.76)p  | (3.20)p                                 |
| <b>Diluted earnings/(loss) per share</b>         | <b>0.69p</b>  | (3.76)p  | (3.20)p                                 |
|  | =====   | =====  | =====                                   |

## 8 Provisions

| <b>Warranty provision</b>       | <b>6 months<br/>Ended<br/>30 November<br/>2016<br/>£000</b> | 6 months<br>Ended<br>30 November<br>2015<br>£000 | Year<br>Ended<br>31 May<br>2016<br>£000 |
|---------------------------------|---|--|---|
| Opening balance                 | 161   | 101  | 101                                     |
| Used during the year            | (7)   | (2)  | (4)                                     |
| Released unused during the year | (23)  | (9)  | (31)                                    |
| Charge for the year             | 237   | 41   | 95                                      |
|                                 | -----   | -----  | -----                                   |
| <b>Closing balance</b>          | <b>368</b>  | 131  | 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. There is no historical data for our new product range, ultra-wide band antennas, so a prudent warranty returns rate percentage has been used to compute the charge until more data is available.

| <b>Dilapidation provision</b>   | <b>6 months<br/>Ended<br/>30 November<br/>2016<br/>£000</b> | 6 months<br>Ended<br>30 November<br>2015<br>£000 | Year<br>Ended<br>31 May<br>2016<br>£000 |
|---------------------------------|---|--|---|
| Opening balance                 | -   | 10   | 10                                      |
| Used during the year            | -   | -  | -                                       |
| Released unused during the year | -   | -  | (10)                                    |
| Charge for the year             | 80  | -  | -                                       |
|                                 | -----   | -----  | -----                                   |
| <b>Closing balance</b>          | <b>80</b>   | 10   | -                                       |
|                                 | =====   | =====  | =====                                   |

## 9 Analysis of net funds/(debt)

|                             | 1 June 2016 | Cash Flow | Other<br>Changes | 30 Nov<br>2016 |
|-----------------------------|-------------|-----------|------------------|----------------|
|                             | £000        | £000      | £000             | £000           |
| Cash and cash equivalents   | 990         | 733       | (43)             | 1,680          |
| Interest bearing borrowings | (1,270)     | 350       | -                | (920)          |
|                             | -----       | -----     | -----            | -----          |
|                             | (280)       | 1,083     | (43)             | 760            |
|                             | =====       | =====     | =====            | =====          |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

At 30 November 2016 the Company had a £3.0m invoice discounting facility in place with Barclays Bank plc against the UK debtor book having had the facility increased by £1.0m on 31 October 2016 and a \$3.5m facility with FGI against the US debtor book.

## 10 Forward looking statements

Certain statements in this half-yearly financial report are forward-looking. Where the half-yearly financial 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.