Filtronic Broadband Limited

Directors' report and financial statements

Registered number 3398105

31 May 2007

Contents

Company information

Directors

Professor JD Rhodes CBE FRS FREng (retired 29 September 2006)
RC Hindson
IA Gibson (appointed 29 September 2006)
Dr CI Mobbs (appointed 29 September, resigned 20 November 2006)

Secretary

M Moynihan

Auditors

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

Bankers

Barclays Bank plc
10 Market Street
Bradford
BD1 1NR

Registered office

Airedale House
Acorn Park
Charlestown
Shipley
West Yorkshire
BD17 7SW

Directors' report

The directors present their report and the audited financial statements for the year ended 31 May 2007

Principal activities

The company's principal activities during the year were the design and manufacture of microwave products for use in mobile telecommunication networks

Results and dividends

The results for the year are set out in the profit and loss account on page 8 The position at the end of the year is shown in the balance sheet on page 9 The directors have not recommended a dividend for the year (2006 £nil) as the company has no distributable reserves

Business review

Sales increased 92% to £22,363,612 (2006 £11,631,259) resulting in an operating profit of £2,234,365 (2006 £381,915 loss)

The company designs and manufactures customised microwave electronic sub assembly components that are integrated by OEMs into point to point (PTP) radios These radios provide the backhaul links for telecom networks particularly for the mobile basestation market Customers require a broad radio portfolio in order to provide global coverage of the licensed communication bands

The company applies specialised microwave technology and radio expertise to develop custom solutions for each OEM customer It provides a broad product range of frequency bands underpinned by cost effective designs in order to offer highly competitive volume supply across two product lines – microwave transceiver modules and filters These products are integrated by the customer into the radio

The company has developed proprietary semiconductor device technology that enables a high level of product integration These devices are manufactured by Filtronic Compound Semiconductors Limited and by a third party foundry This provides significant cost advantage compared to the normal level of product integration by reducing the complexity of manufacture of transceiver modules

The company has a full portfolio of filters required to channelise the licensed frequency bands in the radio These products are optimised to meet market needs for higher volume supply with short lead times

The company has expanded its customer base and has three main customers which are global market leading OEMs It believes itself to be in the top two merchant suppliers of transceivers and diplex filters by global volume share in the point to point market Several additional products are being developed and qualified, some of which have entered production late in the financial year Expansion of its portfolio with its current customer base and volume demand growth from these customers has enabled Point to Point to increase its sales 92% compared with last financial year and achieve operating margins of 10% in the year It is expected to show further growth in the coming financial year

Research and development

During the year the company expended £1,854,904 (2006 £1,595,952) on research and development, all of which was charged to the profit and loss account The increased expenditure was incurred to support increased customer demand

Capital expenditure

Capital expenditure was £640,162 (2006 £520,008) The increased expenditure was incurred to support the growth in the operations

Directors' report *(continued)*

Assessment of risk

All the sales are for modules used in wireless telecommunications networks These modules are produced in large volume at relatively low prices

This is a fast-changing business sector with a limited number of sophisticated customers and has demanding performance standards that are set through international competition, resulting in risk to the company's operations

We develop products, and associated production capacity, largely at the company's risk in anticipation of customer requirements, these may represent substantial investment in the context of the company's operations

Market

Our principal markets depend on the capital spending plans of the cellular telephone operators The spending plans of operators reflects demand for both network coverage and the introduction of new network facilities, for example high bandwidth services on 2G and 3G technologies Over the medium term, these operators have shown a cycle in their levels of demand, and this affects our level of activity In addition, we have seasonal variations in demand arising from the purchasing profile of our OEM customers

We design and manufacture modules for our OEM customers Our ability to grow our market presence depends on our target OEM customers continuing or expanding their current policies on purchasing of externally designed and manufactured products With evolution in product technology and other corporate decisions, these policies may change and so reduce our effective addressable market size

As well as these factors, that may result in decreased sales and operating profits we may also fail to forecast market movements correctly so missing opportunities or wrongly predicting product longevity

Manufacturing

In the wireless infrastructure market, production is demand led and customers may vary their requirements from the business at short notice, so leading to changes in levels of goods supplied Customers expect consistent high quality product and reducing prices, to satisfy which we depend upon ongoing adequate control of our complex operating environment and provision of the correctly designed technological solutions including achievement of target cost reduction plans Non-performance in these areas may diminish our market position

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

Technology

Our product competitiveness is strongly influenced by technology choices at the 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

Financial management

The company's sales and operating result is subject to significant foreign exchange risk The majority of the company's sales are denominated in euros, where as the majority of costs denominated in sterling If sterling were to strengthen significantly against the euro and corresponding price increases were not agreed by the customers, then this could have the effect of materially reducing sales and the operating result

Directors' report *(continued)*

Directors and directors' interests

The directors of the company during the year were those listed on page 1

None of the directors had any interests in the shares of the company during the year

The interests of RC Hindson and IA Gibson in the share capital of the ultimate parent undertaking, Filtronic plc, are given in that company's financial statements

Political and charitable contributions

No contributions were made for political purposes or to charities (2006 £nil)

Supplier payment policy

It is the company's policy to abide by terms of payment agreed with suppliers in respect of all goods and services properly invoiced to the company At 31 May 2007 trade creditors of £3,472,014 represented 60 days purchases, calculated in accordance with the Companies Act 1985

Directors Indemnity

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report

Disclosure of information to auditors

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 auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board

M.Moynihan.

M Moynihan
Secretary

23 July 2007

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

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Independent auditors' report to the members of Filtronic Broadband Limited

We have audited the financial statements of Filtronic Broadband Limited for the year ended 31 May 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you if, in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditors' report to the members of Filtronic Broadband Limited
(continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 May 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

23 July 2007

Profit and loss account
for the year ended 31 May 2007

	Note	2007 £	2006 £
Sales	2	**22,363,612**	11,631,259
Operating profit/(loss)	3	**2,234,365**	(381,915)
Currency exchange gain/(loss)		**9,654**	(12,860)
Profit/(loss) on ordinary activities before taxation		**2,244,019**	(394,775)
Taxation	6	-	-
Profit/(loss) for the financial year		**2,244,019**	(394,775)

All the results relate to continuing operations

Statement of total recognised gains and losses
for the year ended 31 May 2007

	2007 £	2006 £
Profit/(loss) for the financial year	**2,244,019**	(394,775)
Total recognised gains and losses relating to the year	**2,244,019**	(394,775)

Balance sheet
at 31 May 2007

	Note	2007	2006
		£	£
Fixed assets			
Tangible assets	7	**1,278,483**	759,187
Current assets			
Stocks	*8*	**3,713,443**	1,589,143
Debtors	*9*	**5,003,437**	1,768,951
Cash at bank and in hand		**9,444**	44,212
		8,726,324	3,402,306
Creditors amounts falling due within one year	*10*	**16,977,086**	13,377,791
Net current liabilities		**(8,250,762)**	(9,975,485)
Net liabilities		**(6,972,279)**	(9,216,298)
Capital and reserves			
Called up share capital	*11*	**68,140**	68,140
Profit and loss account	*12*	**(7,040,419)**	(9,284,438)
Shareholders' deficit		**(6,972,279)**	(9,216,298)

These financial statements were approved by the board of directors on 23 July 2007 and were signed on its behalf by

RC Hindson
Director

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards

The company is dependent upon the continued financial support of its ultimate parent undertaking

The directors of the company have considered the financial position of the ultimate parent undertaking and have concluded that it is appropriate for these financial statements to be prepared on a going concern basis

Cash flow statement

The company has taken advantage of the exemption allowed by FRS1 (revised) for wholly owned subsidiary undertakings and has not prepared a statement of cash flows

Sales

Sales represents amounts receivable, excluding value added tax, in respect of goods provided in the ordinary course of business

Foreign currency transactions

Sales and purchases in foreign currencies are translated at the rate of exchange ruling at the time of the transaction Monetary assets and liabilities outstanding at the period end are translated at the rate of exchange applicable at that date Exchange movements are included in the profit and loss account for the year

Tangible fixed assets

Fixed assets are included at cost less accumulated depreciation The carrying values of tangible fixed assets are reviewed for impairment if there are indications that the carrying values may not be recoverable

Depreciation

Depreciation is provided in order to write off the cost of tangible fixed assets in equal instalments over their estimated useful lives as follows

Plant and equipment 3-10 years

Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term

Research and development

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred

Notes *(continued)*

1 Accounting policies *(continued)*

Stock and work in progress

Stocks and work in progress are stated at the lower of cost and estimated net realisable value Cost comprises the purchase price of raw materials and components together with direct labour and attributable overheads Estimated net realisable value consists of the expected sales value less all costs required to bring stock to its sales condition and location

Deferred tax

Deferred tax is recognised as a liability or asset if the transaction or events that give rise to an obligation to pay more tax in the future or a right to pay less tax in the future have occurred by the balance sheet date

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Retirement and death benefits scheme

The group operates a contracted in Retirement and Death Benefits Scheme for eligible employees including directors The scheme, which provides defined benefits based on length of pensionable salary at retirement, is administered by trustees and its funds are independent of the group's finances Contributions to the scheme are charged to the profit and loss account so as to spread the costs of pensions over the employees' working lives with the group

2 Sales

The company's sales and loss before taxation were all derived from its principal activity

An analysis of sales by geographical market is given below

	2007 £	2006 £
United Kingdom	**61,334**	102,554
Europe	**22,302,278**	11,482,532
Americas	**-**	46,173
	22,363,612	11,631,259

Notes *(continued)*

3 Operating profit/(loss)

	2007 £	2006 £
Income		
Sales	22,363,612	11,631,259
Increase in stocks of finished goods and work in progress	1,222,266	295,569
	23,585,878	11,926,828
Costs:		
Raw materials and consumables	13,926,607	6,621,469
Staff costs		
Wages and salaries	3,747,312	2,671,466
Social security costs	305,433	215,596
Other pension costs	227,882	190,773
	4,280,627	3,077,835
Depreciation	368,066	349,236
Other operating charges	2,776,213	2,260,203
	21,351,513	12,308,743
Operating profit/(loss)	2,234,365	(381,915)

4 Profit and loss account items

Operating profit/(loss) is stated after charging/(crediting)	2007 £	2006 £
Operating lease rentals		
- land and buildings	27,205	38,683
- other	38,652	38,053
Research and development expenditure	1,854,904	1,595,952
Profit on disposal of fixed assets	-	(21,615)
Auditors' remuneration - audit of the financial statements	10,000	6,000

Notes *(continued)*

5 Employees

	2007 No	2006 No
Manufacturing	**153**	104
Research and development	**30**	23
Sales	**2**	2
Administration	**4**	3
Average number of employees	**189**	132

6 Taxation

Factors affecting the tax charge for the period

The current tax provided for the period is higher than the standard rate of corporation tax in the UK The difference is analysed below

	2007 £	2006 £
Profit/(loss) on ordinary activities before taxation	**2,244,019**	(394,775)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% *(2006 30%)*	**673,206**	(118,433)
Effects of		
Disallowed expenses	**4,151**	6,117
Depreciation in advance of capital allowances	**109,743**	97,609
Tax losses brought forward	**(242,357)**	14,707
Group relief	**(544,743)**	-
Current tax charge for the period	**-**	-

Deferred tax assets which have not been recognised	2007 £	2006 £
Depreciation in advance of capital allowances	**766,000**	656,000
Trading losses available for relief against future trading profits	**-**	232,000
	766,000	888,000

The deferred tax assets that have not been recognised have been calculated using a tax rate of 30% The United Kingdom tax rate will reduce from 30% to 28% on 1 April 2008 Therefore the deferred tax assets that have not been recognised at 31 May 2008 will be calculated using a tax rate of 28% Applying a tax rate of 28% to the deferred tax assets that have not been recognised at 31 May 2007 would reduce them from £766,000 to £715,000

Factors affecting the future tax charges

It is expected that there will be no significant current tax charge in the foreseeable future because of the availability of group relief and losses brought forward There are deferred tax assets which are not expected to reverse in the foreseeable future that have not been recognised

Notes *(continued)*

7 Tangible fixed assets

	Plant and equipment £
Cost	
At 31 May 2006	3,602,264
Additions	640,162
Group transfers	544,114
At 31 May 2007	**4,786,540**
Depreciation	
At 31 May 2006	2,843,077
Charge for the year	368,066
Group transfers	296,914
At 31 May 2007	**3,508,057**
Net book value	
At 31 May 2007	**1,278,483**
At 31 May 2006	759,187

8 Stocks

	2007 £	2006 £
Raw materials	**1,689,463**	787,429
Work in progress	**1,131,980**	684,495
Finished goods	**892,000**	117,219
	3,713,443	1,589,143

9 Debtors

	2007 £	2006 £
Trade debtors	**4,491,556**	1,431,492
Other taxation	**278,024**	274,337
Prepayments and accrued income	**233,857**	63,122
	5,003,437	1,768,951

Notes *(continued)*

10 Creditors: amounts falling due within one year

	2007	2006
	£	£
Trade creditors	**3,472,014**	1,448,150
Amounts due to group companies	**13,269,632**	11,754,840
Accruals and deferred income	**235,440**	174,801
	16,977,086	13,377,791

11 Share capital

	Authorised		**Allotted, called up and fully paid**	
	2007	2006	**2007**	2006
	Number	Number	**£**	£
Ordinary shares of 1p each	**15,000,000**	15,000,000	**68,140**	68,140

12 Reserves

	Profit and loss account
	£
At 31 May 2006	(9,284,438)
Loss for the financial year	2,244,019
At 31 May 2007	**(7,040,419)**

13 Reconciliation of movement in shareholders' deficit

	2007	2006
	£	£
Loss for the financial year	2,244,019	(394,775)
Net reduction in shareholders' deficit	2,244,019	(394,775)
Opening shareholders' deficit	(9,216,298)	(8,821,523)
Closing shareholders' deficit	**(6,972,279)**	(9,216,298)

Notes *(continued)*

14 Capital commitments

	2007	2006
	£	£
Capital expenditure contracted for but not provided in the financial statements	**140,426**	109,115

15 Operating leases

Annual commitments under non-cancellable leases were as follows

	Other	
	2007	2006
	£	£
Operating leases which expire within two to five years	**19,712**	32,176

16 Pension commitments

The company participates in a funded group defined benefits pension scheme which is operated for the employees of Filtronic plc and its UK subsidiaries The scheme provides benefits based on final pensionable pay The assets of the scheme are held separately from those of the company and the group The contributions are advised upon by a qualified actuary on the basis of biennial valuations The most recent valuation was at 1 July 2006 and the details of this actuarial valuation are disclosed in the financial statements of Filtronic plc

Contributions to the defined benefit scheme amounted to £227,882 (2006 £190,773)

In accordance with the actuary's recommendations, contributions to the scheme were increased with effect from 1 July 2005 Employer's contributions were increased from 10 0% to 10 5% of pensionable salaries and employee's contributions were increased from 5 0% to 6 0% of pensionable salaries

FRS 17 'Retirement Benefits' disclosures

The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis The company accounts for the pension costs as if it was a defined contribution scheme, as permitted by FRS 17 'Retirement Benefits' The deficit in the group scheme at 31 May 2007 was £6,954,000 (2006 £20,585,000)

17 Ultimate parent undertaking

The company's ultimate parent undertaking is Filtronic plc, a company registered in England and Wales

Copies of the financial statements of Filtronic plc, which include the company, can be obtained from Filtronic plc, Airedale House, Acorn Park, Charlestown, Shipley, West Yorkshire, BD17 7SW