



*A leading designer and manufacturer of electronic systems for satellite and microwave communications, to the telecommunications and defence markets and a specialist manufacturer for the aerospace market*

## **Interim results for the six months to 30 September 2005**

[www.intelek.plc.uk](http://www.intelek.plc.uk)

# Strategy

- Focus on Satellite and Wireless Communications
  - Increase market penetration
    - Capitalise on strength of brand reputation
    - Expand product range through extensive R&D
    - Exploit UK / US profile
    - Extend geographic presence
  - Accelerate growth through selective acquisitions
- Optimise performance and value of non-core assets

# Group Structure



**UK**

*Witham, Essex  
38 employees*

*2004/05 Sales: £ 14 million*

Satellite modems, solid-state power amplifiers, low noise amplifiers, and transceivers

**USA**

*State College, PA  
65 employees*

COMMUNICATIONS

**UK**

*Presteigne & Milton Keynes  
118 employees*

*£ 9 million*

Microwave PCBs, components and microwave chip packaging

**UK**

*Birkenhead  
161 employees*

*£ 9 million*

Titanium, aluminium and composite aerostructures

AEROSPACE

# Financial Summary

*Intelek's new products prepare the ground for growth*

- Strong Q2 lifts H1 ahead of expectations
- Headline PBT up 5% at £0.80m
- PBT (after restructuring costs) up 26%
- Basic EPS up 41% to 0.62p (2004: 0.44p)
- Interim dividend maintained at 0.12p
- Net debt £3.5m (2004: £6.3m)

# Paradise Datacom

*Design and manufacture in both USA and UK of an extensive line of amplifier and modem products for the satcoms industry*

	Est. Market Size (£m)	Paradise Market Share	Paradise Market Rank
Modems	70	9%	#3
Amplifiers	65	13%	#4/5

- **Market sectors**
  - Satellite systems manufacturers and integrators
  - International telcos inc. mobile networks
  - Government agencies and contractors
  - News gathering services and broadcasters
  - Large international groups for own use
- **Fundamentals for market remain strong**
  - Commercial market confidence returning
  - Growing demand in developing countries
  - Military and Government spending set to continue
  - Recent natural and man-made disasters emphasise strategic advantage of satellite communications

# Paradise Datacom

*2005 Sales £6.6m (2004: £7.0m); Operating Profit £0.83m (2004: £1.00m)*

- **Market position strengthens in high power amplifiers (SSPAs)**
  - Orders up 25%
  - 2nd tranche (\$0.8m) of Government programme received in Sept
  - Successful design and delivery of ground-breaking SSPA for US Government (NOAA)
- **Sales of previous generation modems reduce as expected**
- **New Evolution modem range expanded**
  - Extensive and successful market trials of Evolution modem with major customers
  - L-band and redundancy controller versions added to range in Sept'05
  - Unique and innovative features attracting widespread international interest
- **New US site**
  - Move successfully completed in April
  - Contributing factor to increasing level of SSPA output and margin

# Labtech

*Advanced microwave PCB processing, microwave chip packaging and high-performance broadband microwave components*

	Est. Market Size (£m)	Labtech Market Share	Labtech Market Rank
Circuits	90	10%	#3/4
Components	115	2%	#15

- **Market sectors**
  - Mobile telephone base stations
  - Point-to-point radio links
  - Defence projects
  - Space and ground station satcom
- **Market drivers continue to be positive**
  - Mobile telephone networks expanding
  - Defence and security spending a global priority
  - Complexity of circuits increasing, favouring Labtech's high-tech capability
  - European defence customers' preference for local supply

# Labtech

*Sales £4.8m (2004: £4.5m); Operating Profit £0.32m (2004: £0.61m)*

## **Developing new business model for growth**

- **Added microwave design and manufacturing expertise**
- **Creating own IPR and product range**
- **Targeting specialist markets**
- **Investing in advanced process equipment**
- **Early signs are encouraging:**
  - Microwave components operation ahead of expectations
  - New products about to be launched
  - Breaking further into North America, world's largest market
  - 10% growth in sales of other circuits, partly offsetting reduction in older programmes

# CML

***Sales £5.4m (2004: £4.0m); Operating Profit £0.56m (2004: £0.02m)***

- **Comprehensive service in the manufacture of aircraft structures and sub-assemblies**
  - 4- & 5-axis precision machining of structural parts in titanium and aluminium
  - Composite components and assemblies
  - Repairs and spares service
- **Programmes include Airbus (all aircraft), Hawker, C27, Nimrod, Lynx and Sea King**
- **Airbus at record levels and continuing to grow**
- **CML sales up 35%; 12-month order book £7.6m**
- **Improved throughput and efficiency following restructuring**
- **Profit 10% of Sales, compared with near breakeven in 2004**

# Income Statement

Half year to 30 September			
	2005	2004	
	£m	£m	
Sales	16.8	15.4	Increase in Aerospace sales ...
Gross Profit	4.7	4.5	
<i>Gross Margin</i>	28%	29%	... at lower margin
Operating Profit	1.3	1.3	R&D up 8% at £0.9m
Interest	-0.2	-0.2	Cover 7.6x (2004 : 5.8x)
Pension finance cost	-0.3	-0.3	= expected return on assets less interest on liabilities
Headline profit	0.8	0.8	5% increase
Profit before tax	0.8	0.6	26% increase
<i>Tax Rate (headline)</i>	35%	32%	Tax rate up due to higher USA element
<i>Dividend</i>	0.12p	0.12p	Dividend maintained

# Balance Sheet

	As at 30 September		
	2005	2004	
	£m	£m	
<b>Goodwill</b>	<b>13.5</b>	<b>13.5</b>	Restated to March'04 value, adjusted for currency
<b>Fixed Assets</b>	<b>6.4</b>	<b>6.7</b>	£0.8m capital expenditure, principally Labtech and CML
<b>Inventory</b>	<b>3.3</b>	<b>4.4</b>	Continued tight management of inventory
<b>Debtors</b>	<b>6.6</b>	<b>7.8</b>	... and receivables
<b>Trade creditors</b>	<b>-4.9</b>	<b>-5.8</b>	Reflects reduced inventory
<b>Tax and other net assets</b>	<b>-0.7</b>	<b>-1.0</b>	Advance tax payments made in the US
<b>DB pension (net)</b>	<b>-8.7</b>	<b>-9.4</b>	Better asset performance, plus special contribution re: Pascall disposal
<b>Net Debt</b>	<b>-3.5</b>	<b>-6.3</b>	Disposal of Pascall, in March 2005, net of Microwave acquisition
<b>Net assets</b>	<b>12.0</b>	<b>9.9</b>	

# Cash Flow

	Half year to 30 September		
	2005	2004	
	£m	£m	
Cash from operations before..	1.6	1.5	Cashflow from operations increased 7%
.. Microwave start-up working cap	-0.3		Microwave acquired without working capital
Interest (net)	-0.2	-0.3	
Tax	-0.4		Advance payments in USA; '04 had tax credit catch-up
Net capex (incl fin leases)	-1.0	-0.7	Main items: new laser at Labtech, new machining centre at CML
Disposal/acquisition of business	-0.5		Mainly acquisition cost for Microwave
Dividends	-0.2	-0.1	Dividend payment brought forward
Net cashflow	-1.0	0.4	
Effect of exchange rates	-0.1	-0.1	
b/f	-2.4	-6.6	
Net Debt	-3.5	-6.3	

# Outlook for 2005/06

- H2 expected to build on strong Q2 performance
- **Paradise Datacom**
  - Technology leadership in amplifiers raising profile globally
  - Growing level of opportunities, especially in Government sector
  - New modem range expected to be contributing significantly by end of Q4
- **Labtech**
  - Further growth in new, more complex circuits following investment in marketing and process capability
  - Existing customer base developing for microwave components, with encouraging prospects for new designs and customers
- **CML**
  - Customer build rates continue to increase
  - Order book supports continuing strong performance

*“Intelek continues to evolve. New products have been added, we have sold a business which was non-core, added a new business and strengthened some aspects of the management and organisation structure. All this has been achieved whilst improving the performance of the continuing operations. The Board believes that 2005/06 will see an overall improvement in performance compared with the previous year.”*

# Appendices

# Directors

Chairman	David Bramwell
Chief Executive	Ian Brodie
Finance Director	Kevin Edwards
Non-Executives	Nigel Mills
	Donald Wilson

# International Accounting Standards

## MAJOR CHANGES (£'M)

Effect on H1'05 figures

Net Assets

Headline Earnings

IAS 19: Employment Benefits –brings net pension deficit onto Balance Sheet, similar to FRS 17

(10.7)

(0.1)

IFRS 3: Business Combinations – Goodwill will no longer be amortised

0.9

Nil

**Total**

**(9.8)**

**(0.1)**

IAS 38: Intangible Assets: R&D – after further investigation, no adjustment appears to be necessary