

INTELEK plc
Interim Report

for the six months ended 30 September 2009



Welcome to Intelek plc

Intelek designs and manufactures electronic systems for satellite and microwave communications and is a specialist manufacturer for the aerospace market.

Group Highlights

- **Strong close to half year, with Q2 well ahead of Q1**
- **Defence sales driving performance, with commercial sales lower, as expected**
- **Prompt action taken to cut costs in aerospace business**
- **Order book and new product launches support improved prospects for H2**
- **R&D investment increased; 3 patents currently under application**

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Stock exchange code: ITK

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Chairman's Statement

David Bramwell



"Our current appraisal, taking into account new product introductions, indicates that the Group remains on course in the execution of its strategy and is well positioned to take advantage of any upturn as the global economy recovers."

Financial Results

I am pleased to report underlying (pre-exceptional) profit before tax for the half year of £1.33 million (2008: £2.05 million) on sales of £16.9 million (2008: £18.8 million), with underlying earnings per share of 1.07p (2008: 1.64p). This reflects a resilient performance in the face of the global downturn dramatically affecting commercial markets. Although the year started slowly, all three divisions have demonstrated a much stronger performance in the second quarter. We remain confident in the future of the Group which is becoming increasingly aligned with large defence and security programmes and away from the commercial sector.

Trading

Satellite Communications Equipment — Paradise Datacom
Sales: £8.2 million
(2008: £8.1 million)
Operating Profit: £1.63 million
(2008: £1.65 million)

Paradise Datacom's sales increased by 2% over the same period last year to £8.2 million. Government programmes provided

the backbone of deliveries in the first six months. However, we experienced a reduced level of activity in the commercial satcom market resulting in 16% reduction in dollar volumes. Despite strong competition in the market, Paradise Datacom maintained margins through operational efficiencies and sales of software upgrades to previous modem customers. As a consequence of these healthy margins, a firm control of overheads and the more favourable exchange rate, operating profit for the half year was in line with the previous year at 20% of sales.

Paradise Datacom has continued to benefit from regular orders on long term defence programmes. On one programme for high power amplifiers, \$3 million of orders have been taken since the start of year, including \$0.7 million received in October. In the commercial market, we have seen some signs of recovery, with stronger order volumes in Russia, South Asia and Latin America towards the end of the half year. We would expect this to continue in the second half, supported by new product introductions.

The first deliveries of modems with the embedded Paired Carrier Multiple Access (PCMA) feature, licensed from ViaSat Inc, were made in September to trial customers and encouraging reports have been received. The PCMA technology reduces the customer's bandwidth requirement by up to 50%, providing much needed operational cost savings.

The amplifier research team is nearing completion of the first full PowerMax system, the world's highest power SSPA system, which will be demonstrated to major customers at our Pennsylvania site. Advance marketing of PowerMax at a number of trade shows resulted in encouraging levels of interest from major defence and telecom companies.

Our Phoenix design centre, which was established in the last twelve months, has now completed a new family of converter products. In addition, a joint project with Labtech Microwave has resulted in the release of new Ka Band low noise amplifiers (LNAs).

The order book has been maintained at \$4.6 million. We would expect order intake to rise in the second half judging from the wide range of high value opportunities currently being nurtured and the significant opportunities addressable by our recently introduced new products. Paradise Datacom should be able to build on a solid first half.

Microwave Components and Manufacturing Services — Labtech

**Sales: £3.6 million
(2008: £3.7 million)**

**Operating Profit: £0.03 million
(2008: £0.05 million)**

Sales and profit were in line with 2008 levels. Labtech's business model has continued to evolve towards specialist defence and communications companies, leaving behind the commodity telecoms sector, sales for which were down 67%. The new business included high specification radio-link PCBs, further growth in defence sales and a substantial increase in sales to Air Traffic Control (ATC) customers, all validating Labtech's change in strategy.

Up to the end of October Labtech has taken £1.5 million of orders for radio link PCBs. The most prominent ATC success has been Labtech's recent contract to supply a range of microwave PCBs and antennas to a major European ATC radar supplier. This has started well, and has made a key contribution to the half year sales. Labtech also won a strategically important order to supply detector log video amplifiers (DLVAs) to a

major European equipment manufacturer for use in a naval electronic defence system. The entire order is deliverable in the second half year.

At the end of the first half year, the order book had increased by 15% to £2.9 million, some £1.2 million higher than the equivalent figure at September 2008.

Aerostructures — CML

Sales: £5.1 million

(2008: £7.1 million)

Operating Profit: £0.35 million

(2008: £1.20 million)

As anticipated, CML has had a challenging first half due to the well publicised reductions in the corporate jet market. Sales reduced by £2.0 million in total, of which £1.6 million was in corporate jets, primarily the Hawker 987 programme. As a result of prompt action to reduce both capacity and overheads in line with market conditions, CML generated an operating profit of £0.35 million.

There are some indications that the corporate jet market is levelling off, but recovery is expected to be slow. Build rates for the large commercial aircraft market, particularly those for Airbus, have stabilised and are forecast to remain at current levels for the foreseeable future. The military sector continues to be robust, with programmes that CML currently supports, such as the Joint Strike Fighter and C27J Spartan, being maintained at expected levels of production. £0.4 million of deliveries have been made so far this year on the JSF programme and £0.8 million of orders were

received in October for the next stage, which will be delivered by October 2010.

CML also enjoyed notable success in the quick turn-round delivery of £0.4 million of carbon fibre components to support the A400M test flight programme. This work package has demonstrated CML's support capability and helps position them for opportunities on new Airbus build programmes.

The order book stands at £6.9 million, of which £4.2 million will be delivered this year.

Funding

Net debt closed at £5.1 million, compared with £3.8 million at the year end and at September 2008. £0.5 million of the increase is funding for the pension transfer programme and restructuring actions taken across the Group. Inventory levels have been reduced by 21% since the year end; however, working capital has increased elsewhere as some customers and suppliers are requiring enhanced terms in these challenging times. We would expect the Group position to improve in the second half of the financial year. Gearing levels remain comfortable with interest cover for the first half year at 17.3 times. The net pension scheme deficit has remained static at £4.4 million.

Dividend

The Board of Directors has confidence in the performance of our businesses and has decided to maintain the interim dividend at 0.165p per Ordinary share (2008: 0.165p). This dividend will be paid on 20 January 2010 to shareholders on the register at 18 December 2009.

Strategy

Our core strategy is to provide technology for the transmission of voice, video and data. Our focus is on the defence, security, telecommunications and broadcast sectors. We will also continue to develop our profitable aerostructures business. The Group will grow organically within our chosen markets through sound investment in product development, capital equipment and enhanced geographic coverage. We will continue to encourage the professional development of our staff enhanced, where necessary, by the recruitment of key additional personnel with complementary skills. In order to supplement organic growth, we will seek suitable acquisitions within our core activity.

Prospects

Paradise Datacom has delivered a resilient performance in the first half, with margins holding up impressively. We are excited by a range of recently launched products that are expected to benefit the second half. We should also see growth in market share from our focus on significant opportunities in the government sector.

Labtech has grown its order book by over 70% from the level at the same time last year, and is well placed following its switch towards specialist defence and communications business.

CML's programmes are now showing signs of stability and orders are in hand to cover most of the projected sales in the second half. Having taken prompt action to reduce costs earlier in the year, we expect CML to build on the steady improvements in performance seen in the first half to produce a strong finish to the year.

In difficult economic conditions, we have taken steps across the Group to contain costs and further develop our market position, producing a resilient result for the first half. Our current appraisal, taking into account new product introductions indicate that the Group remains on course in the execution of its strategy and is well positioned to take advantage of any upturn as the global economy recovers.

David M Bramwell
Chairman
16 November 2009

Condensed Consolidated Income Statement (unaudited)
for the six months ended 30 September 2009

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		Half year to 30 September		Year to 31 March
	Note	2009 £000	2008 £000	2009 £000
Sales	2	16,939	18,754	39,276
Cost of goods sold		(12,141)	(12,742)	(26,698)
Gross profit		4,798	6,012	12,578
Selling and administrative expenses before exceptional items		(1,718)	(2,484)	(5,280)
Exceptional operating items		(190)	—	(417)
Selling and administrative expenses		(1,908)	(2,484)	(5,697)
Research and development expenses		(1,401)	(1,157)	(2,667)
Underlying operating profit	2	1,679	2,371	4,631
Exceptional operating items	3	(190)	—	(417)
Operating profit		1,489	2,371	4,214
Interest receivable		2	5	12
Interest payable		(99)	(159)	(258)
Expected return on pension scheme assets	7	285	443	898
Interest on pension scheme obligations	7	(533)	(613)	(1,203)
Finance costs — net		(345)	(324)	(551)
Underlying profit before taxation	2	1,334	2,047	4,080
Exceptional operating items		(190)	—	(417)
Profit before taxation		1,144	2,047	3,663
Taxation	4	(374)	(655)	(1,138)
Profit for the period attributable to equity shareholders	2	770	1,392	2,525
Earnings per share — basic	5	0.91p	1.64p	2.97p
Earnings per share — diluted	5	0.91p	1.64p	2.96p

Condensed Consolidated Statement
of Comprehensive Income (unaudited) for the six months ended 30 September 2009

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	Note	Half year to 30 September		Year to 31 March
		2009 £000	2008 £000	2009 £000
Profit for the period		770	1,392	2,525
Other comprehensive income:				
Foreign exchange translation differences		(810)	54	1,782
Net gain/(loss) on hedge of net investment in foreign subsidiary		265	172	(889)
Actuarial gains and losses on defined benefit pension plan	7	(319)	18	(1,907)
Deferred tax on actuarial gains and losses		89	(4)	534
Total comprehensive income/(expense) for the period attributable to equity shareholders		(5)	1,632	2,045

Condensed Consolidated Balance Sheet (unaudited)
as at 30 September 2009

	30 September 2009 £000	30 September 2008 £000	31 March 2009 £000
Note			
ASSETS			
Goodwill	13,776	13,543	14,025
Intangible assets	388	363	486
Property, plant and equipment	5,525	5,760	5,911
Deferred tax assets arising on pension obligation	7 1,728	1,347	1,698
Other deferred tax assets	799	703	836
Total non-current assets	22,216	21,716	22,956
Inventories	4,830	4,103	6,104
Trade and other receivables	7,491	7,164	7,493
Current tax assets	146	—	—
Cash and cash equivalents	570	200	1,013
Total current assets	13,037	11,467	14,610
Total assets	35,253	33,183	37,566
LIABILITIES			
Defined benefit pension obligation	7 (6,169)	(4,811)	(6,063)
Borrowings	(3,488)	(3,359)	(2,987)
Deferred tax liabilities	(939)	(532)	(974)
Deferred government grants	(193)	(77)	(200)
Total non-current liabilities	(10,789)	(8,779)	(10,224)
Borrowings	(2,173)	(653)	(1,811)
Trade and other payables	(4,890)	(6,252)	(7,688)
Current tax liabilities	—	(151)	(47)
Provisions and other liabilities	(49)	(12)	(179)
Total current liabilities	(7,112)	(7,068)	(9,725)
Total liabilities	(17,901)	(15,847)	(19,949)
Net assets attributable to equity shareholders	17,352	17,336	17,617
SHAREHOLDERS' EQUITY			
Issued capital	4,369	4,369	4,369
Own shares	(418)	(429)	(418)
Other reserve	3,411	3,411	3,411
Distributable reserves	9,990	9,985	10,255
Total equity	17,352	17,336	17,617

Condensed Consolidated Statement
of Changes in Equity (unaudited) for the six months ended 30 September 2009

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	Share capital £'000	Own shares £'000	Other Reserves £'000	Distributable reserves			Net £'000
				Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	
At 1 April 2009	4,369	(418)	3,411	(858)	1,527	9,586	17,617
Total comprehensive income/(expense) for the period	—	—	—	265	(810)	540	(5)
Dividends paid	—	—	—	—	—	(260)	(260)
At 30 September 2009	4,369	(418)	3,411	(593)	717	9,866	17,352
At 1 April 2008	4,369	(429)	3,411	31	(255)	8,837	15,964
Total comprehensive income/(expense) for the period	—	—	—	172	54	1,406	1,632
Dividends paid	—	—	—	—	—	(260)	(260)
At 30 September 2008	4,369	(429)	3,411	203	(201)	9,983	17,336
At 1 April 2008	4,369	(429)	3,411	31	(255)	8,837	15,964
Total comprehensive income/(expense) for the period	—	—	—	(889)	1,782	1,152	2,045
Disposal of own shares	—	11	—	—	—	—	11
Dividends paid	—	—	—	—	—	(403)	(403)
At 31 March 2009	4,369	(418)	3,411	(858)	1,527	9,586	17,617

Condensed Consolidated Cash Flow Statement (unaudited)

for the six months ended 30 September 2009

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	Note	Half year to 30 September		Year to 31 March
		2009 £000	2008 £000	2009 £000
Cash flows from operating activities				
Cash generated from operations	8	(237)	1,287	3,160
Interest paid		(99)	(153)	(258)
Interest received		2	5	12
Tax paid		(395)	(143)	(397)
Net cash from operating activities		(729)	996	2,517
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		—	—	34
Purchases of property, plant, equipment and intangible assets		(47)	(298)	(1,224)
Capital grants received		—	—	129
Net cash used in investing activities		(47)	(298)	(1,061)
Cash flows from financing activities				
Share issues		—	—	12
Increase in bank loans		115	44	123
Finance lease payments		(316)	(342)	(704)
Dividends paid	6	(260)	(260)	(403)
Net cash used in financing activities		(461)	(558)	(972)
Net (decrease)/increase in cash and cash equivalents		(1,237)	140	484
Cash and cash equivalents at start of period		57	192	192
Effect of foreign exchange rates		101	(211)	(619)
Cash and cash equivalents at end of period	9	(1,079)	121	57

- (a) The financial information contained herein does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.
- (b) The statutory accounts for the year ended 31 March 2009, which have been delivered to the Registrar of Companies, carry an unqualified report by the auditors and do not contain a statement under Section 237(2) or Section 237(3) of the Companies Act 1985.
- (c) Copies of this Statement are being sent to shareholders. Further copies are available from the Company Secretary, PO Box 25, South Marston Park, Swindon, SN3 4TR, and it is also available on our website, <http://www.intelek.plc.uk>.

1. **Basis of preparation**

This interim financial report has been prepared using the accounting policies and methods of computation applied in the Company's most recent annual financial statements.

2. **Segment reporting**

Business segment

	Half year ended 30 September						Year to 31 March		
	2009			2008			2009		
	Sales £000	Profit £000	Margin %	Sales £000	Profit £000	Margin %	Sales £000	Profit £000	Margin %
Satellite communications — Paradise Datacom	8,203	1,630	20%	8,080	1,646	20%	18,338	3,631	20%
Microwave Components & Manufacturing Services — Labtech	3,633	31	1%	3,696	45	1%	7,302	4	0%
Aerostructures — CML	5,128	351	7%	7,104	1,198	17%	13,865	2,049	15%
Eliminate intra-segment trading	(25)			(126)			(229)		
Continuing operations	16,939	2,012	12%	18,754	2,889	15%	39,276	5,684	14%
Central costs		(333)			(518)			(1,053)	
Underlying operating profit		1,679	10%		2,371	13%		4,631	12%
Net finance costs		(345)			(324)			(551)	
Underlying profit before tax		1,334	8%		2,047	11%		4,080	10%
Exceptional items		(190)			—			(417)	
Taxation		(374)			(655)			(1,138)	
Total for the period	16,939	770		18,754	1,392		39,276	2,525	

Intra-segment sales are at prevailing market rates.

Geographical markets — sales by destination	Half year ended		Year to
	30 September		31 March
	2009 £000	2008 £000	2009 £000
UK	7,470	8,005	15,884
Rest of Europe	1,650	3,047	6,922
North America	4,650	3,097	7,173
Rest of World	3,169	4,605	9,297
	16,939	18,754	39,276

Notes to the Interim Report (unaudited) (continued)
for the six months ended 30 September 2009

3. Exceptional operating items

	Note	Half year ended 30 September		Year to 31 March
		2009 £000	2008 £000	2009 £000
Gain arising on transfers from the defined benefit pension scheme		—	—	106
Asset impairment and restructuring	(a)	(131)	—	(470)
Cost incurred on aborted transactions and dormant companies	(b)	(59)	—	(53)
		(190)	—	(417)

(a) During the six months to September 2009, actions were taken to reduce headcount, particularly at CML, resulting in redundancy costs. Costs in the year to 31 March 2009 related to restructuring at Labtech, comprising £116,000 for redundancy costs and £354,000 for impairment of assets.

(b) During the period, and in the prior year, the Company undertook studies for acquisition and disposal that did not come to fruition.

4. Taxation

Tax for the interim period is based on effective tax rates expected to be applicable to the full year. This is estimated at 32% for underlying profit and 28% for other gains/(losses) (2008: 32% and 28% respectively).

	Half year ended 30 September		Year to 31 March
	2009 £000	2008 £000	2009 £000
Current taxation	(207)	(400)	(567)
Deferred taxation	(167)	(255)	(571)
	(374)	(655)	(1,138)

5. Earnings per Share

Basic earnings per share were calculated based on the profit for the period divided by the weighted average number of ordinary shares outstanding during the period, excluding those held by the Employees Share Trust and those held by Directors that remain subject to performance conditions (84,936,000 (2007: 84,761,000)). There were 330,500 exercisable share options in existence at the period end (2008: 340,500), the exercise price for which is below the average fair value of 14.8p per share of the ordinary shares in issue during the period. These create a dilution in shares of 79,000 (2008: 103,000).

Excluding exceptional items, the underlying earnings per share for the period were:

	Half year ended 30 September				Year to 31 March	
	2009		2008		2009	
	Earnings £000	EPS p	Earnings £000	EPS p	Earnings £000	EPS p
Profit for the year	770	0.91	1,392	1.64	2,525	2.97
Add back: exceptional operating items	190	0.22	—	—	417	0.49
Tax on these items	(53)	(0.06)	—	—	(117)	(0.14)
Underlying	907	1.07	1,392	1.64	2,825	3.32

6. Dividends

The following dividend payments have been made on the ordinary 5p shares in issue:

	Rate	Date	Shares in issue	Half year ended		Year to
				30 September		31 March
				2009	2008	2009
				£000	£000	£000
Final 2007/08	0.30p	24 September 2008	87,376,072	—	262	262
Interim 2008/09	0.165p	21 January 2009	87,376,072	—	—	144
Final 2008/09	0.30p	23 September 2009	87,376,072	262	—	—
Less: Dividends paid to employee share trust				(2)	(2)	(3)
				260	260	403

At 30 September 2009, the 2009 interim dividend had not been approved by the Board and as such was not included as a liability. The dividend is expected to be £144,000 and will be paid in January 2010.

7. Defined benefit pension

	Half year ended		Year to
	30 September		31 March
	2009	2008	2009
	£000	£000	£000
Gross deficit at start of period	(6,063)	(5,212)	(5,212)
Contributions	461	553	1,066
Finance costs	(248)	(170)	(305)
Curtailement and settlement gain	—	—	295
Actuarial gain/(loss)	(319)	18	(1,907)
Gross deficit at end of period	(6,169)	(4,811)	(6,063)
Deferred tax asset	1,728	1,347	1,698
Net deficit	(4,441)	(3,464)	(4,365)

The defined benefit plan was revalued by the Company in line with advice from the scheme actuary as at 30 September 2009. The principal assumptions were:

Inflation	2.70	3.70	2.70
Discount rate	5.43	7.30	6.83

The discount rate is obtained from the iBoxx indices for AA corporate bonds.

Mortality: The September valuation uses the assumptions used in the preceding March valuation, as set out in the Annual Report.

Notes to the Interim Report (unaudited) (continued)
for the six months ended 30 September 2009

8. Cash generated from operations

	Half year ended		Year to
	30 September		31 March
	2009	2008	2009
	£000	£000	£000
Underlying operating profit	1,679	2,371	4,631
Depreciation and amortisation	642	673	1,394
Pension contribution paid towards deficit	(461)	(553)	(1,066)
Deferred income	(8)	(1)	(7)
Profit on disposal of property, plant and equipment	—	—	(3)
Decrease/(increase) in inventories	881	(214)	(1,521)
Increase in receivables	(264)	(480)	(467)
(Decrease)/increase in payables	(2,254)	(464)	313
Net cash flow before exceptional items	215	1,332	3,274
Pension transfer project	(147)	(23)	—
Other exceptional operating items	(305)	(22)	(114)
Cash generated from operations	(237)	1,287	3,160

9. Reconciliation of net cash flow to movement in net debt

	Half year ended		Year to
	30 September		31 March
	2009	2008	2009
	£000	£000	£000
Net (decrease)/increase in cash and cash equivalents	(1,237)	140	484
Effect of foreign exchange rates	101	(211)	(619)
Repayment of finance leases	316	342	704
Cash inflow from debt	(115)	(44)	(123)
Changes in net debt resulting from cash flows	(935)	227	446
New finance leases	(371)	(175)	(367)
Net movement in debt	(1,306)	52	79
Opening debt	(3,785)	(3,864)	(3,864)
Closing debt	(5,091)	(3,812)	(3,785)
Analysis of net debt:			
Cash at bank	570	200	1,013
Bank overdraft and loans	(4,399)	(2,635)	(3,592)
Finance leases	(1,262)	(1,377)	(1,206)
Total net debt	(5,091)	(3,812)	(3,785)
Reconciliation of cash and cash equivalents:			
Cash and cash equivalents per balance sheet	570	200	1,013
Bank overdrafts included within 'current liabilities — borrowings'	(1,649)	(79)	(956)
Cash and cash equivalents per cash flow	(1,079)	121	57

Group Company Addresses

Registered Office

Intelek plc

PO Box 25, South Marston Park,
Swindon, Wiltshire, SN3 4TR

Tel: (01793) 827000

Fax: (01793) 827578

e-mail: info@intelek.plc.uk

Website: www.intelek.plc.uk

Trading Subsidiaries

CML Group Limited

Price Street, Birkenhead,
Wirral, CH41 3PT

Tel: (0151) 647 5531

Fax: (0151) 650 0668

e-mail: enquiries@cml-group.com

Website: www.cml-group.com

Labtech Limited*

Unit 1, Broadaxe Business Park,
Presteigne, Powys, LD8 2UH

Tel: (01544) 260093

Fax: (01544) 260310

8 Vincent Avenue,
Crownhill, Milton Keynes, MK8 0AB

Tel: (01908) 261755

Fax: (01908) 261788

e-mail: sales@labtech.ltd.uk

Website: www.labtechcircuits.com

Paradise Datacom

Paradise Datacom Ltd*

1 Wheaton Road, Witham,
Essex, CM8 3UJ

Tel: (01376) 515636

Fax: (01376) 533762

e-mail: sales@paradise.co.uk

Paradise Datacom LLC

328 Innovation Boulevard,
Suite 100, State College,
PA 16803, USA

Tel: (001) 814 238 3450

Fax: (001) 814 238 3814

e-mail: sales@paradisedata.com

Website: www.paradisedata.com

* Held directly by Intelek plc.

Advisers

Auditors

Grant Thornton UK LLP
Chartered Accountants
Enterprise House, 115 Edmund Street,
Birmingham, B3 2HJ

Solicitors

DLA
Victoria Square House,
Victoria Square, Birmingham, B2 4DL

Bankers

Barclays Bank PLC
Park House, Stoke Gifford,
Bristol, BS34 8TN

Sovereign Bank

2790 West College Avenue, Suite 800,
State College, PA 16801, USA

Stockbrokers/Nomads

Altium Capital Limited
30 St James's Square,
London, SW1Y 4AL

Registrars and Transfer Office

Equiniti Limited
The Causeway, Worthing,
West Sussex, BN99 6DA

