



For Immediate Release

9 June 2010

INTELEK plc

**PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2010**

INTELEK plc (“Intelek” or “Group”), the designer and manufacturer of electronic systems for satellite and microwave communications and specialist manufacturer for the aerospace market, today announces its preliminary results for the year ended 31 March 2010.

**HIGHLIGHTS:**

**Financial:**

- Results ahead of management’s expectations – marginally below record results for 2009
- Sales down 4% to £37.7 million (2009: £39.3 million)
- Underlying PBT down 4% to £3.9 million (2009: £4.1 million)
- Underlying EPS down 6% to 3.12p (2009: 3.32p)
- Full year dividend maintained at 0.465p
- Net debt reduced 58% to £1.6 million (2009: £3.8 million)

**Operational:**

- Resilient performance in a challenging environment
- Government and defence business driving performance
- Prompt action taken to cut costs

**Chairman, David Bramwell, commented:**

*"I am pleased to report a resilient performance by Intelek in a year which presented all Group companies with significant challenges. A combination of growth in our government and defence business and continued attention to costs at all levels has enabled the Group to exceed management’s expectations. Overall, the Board expects to see a return to sales growth year on year, whilst increasing investment in our facilities and product development as we prepare for growth in the years ahead."*

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## **CHAIRMAN'S STATEMENT**

### **Introduction**

I am pleased to report a resilient performance by Intelek in a year which presented all Group companies with significant challenges. A combination of growth in our government and defence business and continued attention to costs at all levels has enabled the Group to exceed management's expectations with underlying profit before tax at £3.9 million, just 4% lower than the previous year's record result.

### **Results**

Sales for the financial year reduced only by 4% to £37.7 million (2009: £39.3 million). Sales in North America increased by 75% to £12.5 million (2009: £7.2 million), largely for government and military programmes. This offset most of the reduction seen in continental Europe, Asia and Africa, for the most part in commercial markets. Underlying operating profit at £4.6 million (2009: £4.6 million) held up well representing an improved return on sales of 12.2% (2009: 11.8%). The continued strengthening of the US dollar contributed £0.3 million to underlying profit before tax, which, at £3.9 million, was £0.1 million below last year's figure. Underlying earnings per share reduced by 6% to 3.12p (2009: 3.32p). Partially as a result of reduced inventory levels, net borrowings reduced in the year by an encouraging £2.2 million to £1.6 million at 31 March 2010.

Paradise Datacom, our satellite amplifier and modem business, had another successful year during which they gained a higher profile as a supplier of solid state power amplifiers to an increasing number of significant multi-year U.S. government programmes. In the middle of the year, Paradise Datacom launched their new bandwidth saving modem using technology licensed from ViaSat, Inc., a NASDAQ quoted company. This has proved to be an exciting new development with sales of US\$2 million achieved in the second half of the year from a standing start in September 2009. With sales of £19.5 million (2009: £18.3 million), Paradise Datacom's operating profit of £4.4 million (2009: £3.6 million) represents that division's best performance to date.

Labtech Microwave, our microwave components and manufacturing services business, performed slightly ahead of last year. Our sales to the phased array radar and air traffic control markets continued to show encouraging signs of growth, offsetting the expected expiry of a long-standing European telecommunications programme. Following the success of our own-design Detector Log Video Amplifiers (DLVA) for major defence contractors, we won a contract to design a next level product (Successive DLVA). This promises attractive sales for the future, but technical complexities, which have now been resolved, did cause some sales to be delayed into the following year.

CML, our aerostructures company, suffered from the decline of the corporate jet market. Military aerospace sales increased: the Joint Strike Fighter project moved into its next pre-production stage and CML also benefited from fast turn-round composite work for the military transporter, A400M, a new programme for CML. Action taken to reduce costs in the first quarter of the year mitigated the impact of the 24% reduction in volume to return an operating margin of 10.4% of sales.

### **Dividend**

As a reflection of the Board's long term confidence in the business, the Board is recommending a maintained final dividend at 0.30p. This brings the total dividend for the year to 0.465p (2009: 0.465p). If approved at the Annual General Meeting on 17 September 2010, the final dividend will be paid on 22 September 2010 to shareholders on the register at the close of business on 27 August 2010.

### **Strategy**

Our core strategy is to continue to develop our business in the communications industry providing technology for the transmission of voice, video and data. Our focus is on the defence, security, telecommunications and broadcast sectors. Alongside this, 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 areas of activity.

## **People**

These have been difficult times which have required the realignment of our operating base throughout all Group businesses. The Board would like to place on record their thanks for the continuing support and flexibility of our staff whose contribution has enabled the successful performance recorded in the year.

## **Outlook**

Throughout the continuing period of economic instability we have proven our resilience through careful and persistent market positioning, investment in new products and prudent cost management. The emphasis on military and national security opportunities, combined with world leading technology, should enable Paradise Datacom to have another successful year. Labtech Microwave is looking to make another step in its turn around, though is likely to see much of this in the second half. CML has contracts with Airbus for most of 2010/11 and will see its 60,000 sq ft Composites facility open in July, creating a strong base from which to attract additional business from the major aerospace companies. Overall, the Board expects to see a return to sales growth year-on-year, whilst increasing investment in our facilities and product development as we prepare for growth in the years ahead.

**David Bramwell**

**Chairman**

9 June 2010

## **CHIEF EXECUTIVE'S REVIEW**

During the year our government and defence business moved ahead strongly across all operating divisions, although we experienced difficult conditions in our commercial markets. As a result, we are pleased to report underlying profit within 4% of last year's figure, significantly ahead of management's expectations at the time of the Interim announcement in November 2009.

- Paradise Datacom's sales were 6% higher than last year. In a challenging market, US dollar sales for the year were maintained, with our growing success in winning government business compensating for continuing weakness in the commercial market. The strength of our product range and our success in penetrating new government programmes, combined with exciting long-term growth sectors such as internet and HDTV, give us confidence for the future.
- Labtech Microwave improved its bottom line performance albeit held back by the delay of a new high specification amplifier product in the final quarter of the year. This is now benefiting the first quarter of the new financial year.
- CML continued to pick up increased work on the Joint Strike Fighter (JSF) programme and gained significant fast turn-round work on the A400M. However the business suffered from the decline of the corporate jet market which was predominantly the cause of a £3.4 million reduction in sales in the year.

### **Satellite Communications - Paradise Datacom**

Sales : £19.5 million (2009: £18.3 million)

Operating Profit : £4.4 million (2009: £3.6 million)

Paradise Datacom has had another record year. Operating profit was up by 20% with the improvement in the £/US\$ exchange rate accounting for one third of the increase. Through a combination of technical innovation and cost containment, management have improved operating margins again by 2.5% to 22.5% of sales. This is an excellent achievement in what is still a very challenging market.

Despite the downturn in the global economy, Paradise Datacom fared well even with reduced order activity from the commercial segment of the market. Procurement activity in this sector has slowed with many operators holding back on plans for infrastructural upgrades or expansions. This is largely cost and finance driven. Much of the investment that is being made is targeting equipment that can optimise bandwidth efficiency, reducing service cost and maximising revenue opportunities. Paradise Datacom has responded by adding features to its products, most notably by embedding in the modems ViaSat's patented Paired-Carrier-Multiple-Access (PCMA) technology. Since release in autumn 2009, sales of PCMA-enabled modems have exceeded US\$2 million.

For several years, Paradise Datacom has focused on increasing sales to government and military markets. This has influenced sales, marketing and product design. Orders for military high-power amplifiers increased almost six-fold from 2007 to 2009. Some of the major programmes won by Paradise Datacom during the year included:

- A multi-year retrofit programme for government transportable earth stations using C, Ku, X and now Ka-band Solid State Power Amplifiers (SSPAs). Shipments during the last financial year totalled US\$6.2 million and similar order levels are expected in the current year.
- Orders in excess of US\$2.2 million have been received from a large US Government system integrator, of which US\$1.8 million was shipped in the year.
- A European service provider has ordered approximately US\$1.2 million in modem products for a satellite bandwidth reduction programme. Paradise Datacom's incorporation of PCMA and the new Fastlink features will provide this customer with the ability to reduce their satellite spectrum usage by as much as 30%.
- Amplifiers which operate in the restricted X and Ka-bands by US and allied forces have experienced significant growth largely due to the successful deployment of the third in a series of X/Ka-band hybrid

satellites. This has resulted in sales of X-band SSPAs of over US\$3.6 million in 2009, which represents a 340% increase over 2008 and 590% over 2007. Sales of X-band SSPAs are expected to experience continued growth as military forces transition services from existing commercial satellites to the new satellites as they come on line.

Paradise Datacom continues to expand its product portfolio which already represents one of the broadest in the industry. Additions to the amplifier line include models that incorporate the newest Gallium Nitride (GaN) transistor technology for increased power and efficiency. A half-sized version of the flagship Compact Outdoor SSPA will also utilise GaN technology to generate similar power levels available in the larger package but in a smaller and lighter package. PowerMAX, Paradise Datacom's ultra-high power, modular SSPA system has generated major interest in the industry with the first system having been sold to one of the world's largest satellite operators for one of their Asia-regional teleports. The first run of Ka-band SSPAs has been sold to a military transportable manufacturer for incorporation into their multi-band terminals and will include US military certification. The soon to be released Fastlink modem feature promises to greatly reduce satellite delay and the PD155i modem will address high data-rate applications for users needing to move high volumes of IP data.

At the end of 2009, Paradise Datacom's engineering facility in Phoenix, Arizona began shipping a new line of modular block up and down converters. These utilise the latest technology and design principles to provide maximum versatility and high value at a low cost.

The management team at Paradise Datacom is fully aware of the dynamics within the markets it addresses and is quick to adapt products and services to meet current demands as well as those out on the horizon. Higher power, lower weight, smaller size, greater efficiency, lower latency and spectral savings define our product roadmap for the present and the future.

#### **Microwave Components and Manufacturing Services - Labtech Microwave**

Sales : £7.8 million (2009: £7.3 million)

Operating Profit : £0.1 million (2009: Breakeven)

Labtech Microwave achieved 7% overall sales growth in the year despite very difficult market conditions particularly in the telecom and other commercial sectors. The strategic transformation into a defence and air traffic control (ATC) components business has delivered strong results with these two market areas combined producing 35% sales growth. Although telecom sales only reduced by 7%, other commercial market sectors fell by nearly 50% as the recession took hold. Final teething issues on a new high specification amplifier adversely affected expected profitability in the last quarter. These products are now being delivered in the first quarter of 2010/11. Nevertheless, profit of £0.1 million was recorded overall, improving on the breakeven of last year.

Defence remained the largest market sector measured in sales, mainly due to starting the year with a strong order book for Phased Array radar circuits. Labtech remains a key supplier of volume Phased Array radar circuits into the European defence market and is established on several radar platforms, which all have good prospects of volume production over the coming years. The Phased Array radar is now established as the preferred option for military use in all military sectors (airborne, land based and naval). These radars enable electronic beam steering and give greatly improved performance when compared with mechanically steered radars. Labtech's ability to manufacture the high volumes of specialist microwave PCBs needed for Phase Array radars and then perform complex microwave assembly and test remains a very attractive option to the radar OEMs. Sales into the defence market of Detector Log Video Amplifiers (DLVAs) and more standard amplifiers were also strong. During the year Labtech won a major contract for a new highly specialised DLVA, but due to technical issues, deliveries only commenced at the end of the year leaving most of the contract to deliver in 2010/11. During the year Labtech also added to its High Power Microwave Switch range by performing custom development work for a number of European defence OEMs. This switch work has largely been successful and should enable follow-on production work during 2010/11 and beyond.

Labtech started the year having just commenced work on a substantial multi-year ATC project. This project yielded well over £1million of microwave PCB sales in the year and has continued into 2010/11. A major part of the project involved the installation and commissioning of an autoclave which has been successfully completed and enables the manufacture of PCB antenna elements up to 6 feet long.

Further decline in Labtech's volume telecommunication sales was limited to 7%, as a large requirement for very high performance radio link transceiver PCBs for a North American OEM mostly compensated for a £1.5 million sales reduction due to lower demand for older technology boards. Labtech's strategy is to remain in the very high end of the radio link telecommunications market where it can competitively offer high quality circuits and MMIC (Monolithic Microwave Integrated Circuit) assembly to customers operating in the more specialist niche markets which now include applications up to 60GHz and above.

Labtech also sells circuits into other commercial markets such as Marine radar, SatCom, RFID (RF Identification) and MMIC semiconductor packaging. However, collectively Labtech's business into these areas reduced by nearly 50% during the year as a result of the poor economic conditions and customers over-stocking.

Looking ahead, Labtech Microwave will continue to pursue the higher value opportunities in defence, ATC and high-end telecom radio links. Further reductions in telecom sales are expected in 2010/11 as Labtech narrows its focus to the more specialist niche market areas and the OEMs contend with the year on year unit price reduction of telecom equipment. Our ability to offer high quality microwave PCB manufacture, MMIC assembly and microwave circuit design, assembly and test remains unique within the industry. However, the current economic climate continues to adversely affect Labtech's business and a recently announced six month delay in the receipt of an expected large order has resulted in a review of Labtech's structure with a number of cost saving changes being implemented prior to the commencement of the new financial year. Although new development work continues at a good rate, the production levels will remain depressed during the first half of the new year but should then improve significantly in the last six months once we commence delivery under the delayed programme.

#### **Aerostructures - CML**

Sales : £10.5 million (2009: £13.9 million)

Operating Profit : £1.1 million (2009: £2.0 million)

Given that sales at CML were down by 24% year on year, an operating profit of £1.1 million was a considerable achievement although CML did benefit from £0.2 million of rebate on the cost of prior years' consumable materials.

The reduction in sales was almost entirely due to the previously reported sudden and sharp decline in demand for corporate jets, particularly in the USA. CML's Airbus sales remained flat while we benefited from additional sales on military projects. In particular, our sales on the JSF increased by £0.6 million as this programme moves through the initial production stage. We were also pleased to win over £0.5 million of fast turn-round composite work on the new A400M military transporter. In addition, CML expects further orders on the C27 programme in the first two months of 2010/11.

The fitting out of CML's new 60,000 square feet Composite facility in Bromborough, near Birkenhead, continues apace. This should be ready for occupation in July 2010 and will enable CML to meet the growing delivery quantities of the JSF programme and offer our composites expertise to other significant aerospace players and, potentially, to markets beyond aerospace.

#### **Health, Safety and the Environment**

Intelek continues to invest in the training and development of staff at all levels and remains committed to the highest levels of husbandry of the local environment and care of employees. Everyday working practices focus on the reduction of waste and efficient use of valuable resources, especially energy and water, with the overall aim of preventing damage to the environment. Both of the manufacturing companies which employ the use of chemical processes are approved to the international environmental standard, ISO 14001. In addition, these operating companies have been surveyed by the Carbon Trust whose energy saving recommendations have been implemented.

## **Outlook**

Overall, the Group is expecting to see a continuation of the resilient performance recorded in 2009/10. In particular:

- Paradise Datacom continues to benefit from the investment of recent years in new products and enhanced marketing and distribution. The company is performing well and should continue throughout the current year to benefit from the market's growing acceptance of the PCMA modem and the new amplifier products such as Ka Band and PowerMAX.
- Labtech expects to have another slow start to the current year, with an improved second half as many of its major programmes come back on stream.
- CML has good order expectations for the current year but its results are likely to be affected by the £0.4 million step function increase in Composites' costs from the new enhanced facility, an important investment in the future of this operation.

Overall, we expect to record another solid performance in 2010/11.

**Ian Brodie**  
**Chief Executive**  
9 June 2010

## **FINANCIAL REVIEW**

### **Results**

Underlying operating profit for the financial year to 31 March 2010 was maintained at £4.6 million despite overall sales being down 4% on the previous year. Gross margin remained at 32%. After a £0.1 million increase in net finance costs, underlying profit before tax reduced by 4% to £3.9 million, equating to 10.4% of sales (2009: 10.4%).

### **Research and development costs**

R&D investment at Paradise Datacom was £2.3 million, equal to 12 % of its sales, which is consistent with the previous year. Labtech Microwave also maintained its R&D investment, at £0.4 million.

### **Exchange rate**

Our principal subsidiary, Paradise Datacom LLC, reports its results in US dollars and these are translated at average exchange rates. This year the rate dropped 6% from US\$1.71 to US\$1.60. The overall effect was a net increase in sales of £1.3 million and an increase in underlying profit before tax of £0.3 million. The Group does not hedge directly against gains or losses on translation of the result, but does maintain a large portion of its bank debt in US dollars as a partial hedge against the net assets invested in Paradise Datacom LLC.

### **Finance costs**

Interest costs reduced to £0.2 million (2009: £0.3 million) due to lower prevailing interest rates and lower average net debt. Measured against underlying operating profit, interest cover rose to 26 times (2009: 19 times). Pension finance costs are the notional charges on the Group's defined benefit pension scheme, representing the net of the expected return on scheme assets and interest on scheme obligations. This is computed by the scheme actuary and can fluctuate, as demonstrated this year by the increase to £0.5 million (2009: £0.3 million). The net cost for 2010/11 is projected by the actuary to reduce to £0.2 million, primarily due to lower discount rates and the higher level of scheme assets.

### **Exceptional operating items**

The Group incurred £0.7 million of exceptional operating charges in the year (2009: £0.4m). £0.3 million was in respect of redundancies at CML and Labtech Microwave, made necessary by the downturn in orders received. £0.2 million was for costs incurred in defence against legal action for breach of intellectual property. Based on legal advice, we consider the action to be wholly without merit; however we are obliged to go through the process. We shall be seeking recovery of costs. A further £0.2 million was in respect of various corporate activities which did not come to fruition.

### **Taxation**

The effective tax rate on underlying profit increased from 31% to 32%, reflecting the increasing importance of the Group's US operations, which bear a higher local tax rate than the UK's 28%. We expect the effective tax rate in 2010/11 to be in the range of 32%-34%.

### **Earnings per share**

Basic EPS reduced 15% to 2.52p. Underlying EPS reduced 6% from 3.32p to 3.12p.

### **Pension**

The Group's defined benefit pension scheme was valued at 31 March 2010 by the scheme actuary. Liabilities increased to £19.7 million (2009: £16.3 million), following changes to the discount and inflation rates. There was no change to the mortality assumptions. However, the improved equity markets led to a sharp increase in scheme assets to £14.1 million (2009: £10.2 million). The net outcome was a reduction in the deficit to £5.6 million before

tax (2009: £6.1 million). The Group contributed £1.0 million to the scheme during the year, £0.8 million as part of the deficit recovery plan and the balance to meet the PPF levy and other scheme expenses.

### **Cash flow**

Net debt reduced by 58%, from £3.8 million to £1.6 million. Cash generated from operations before exceptional items increased 54% to £5.0 million (2009: £3.3 million), including the benefits of a £1.4 million reduction in inventory and debtor days of 55 (2009: 57). Tax payments were higher, following higher profit generation in the USA. However, this was offset by lower capital spend. Including assets funded by finance lease, capital spend was £1.1 million (2009: £1.6 million). £0.5 million was invested at CML, primarily in equipment and facilities for the expansion of the Composites division. £0.6 million was invested at Paradise Datacom, with £0.3 million in various items of test and production equipment and £0.3 million in development projects, most notably for the new PowerMax range of high power solid state power amplifiers.

### **Shareholder's equity**

In addition to the net profit for the year of £2.2 million, £0.2 million was charged direct to equity for net foreign exchange losses made on consolidating US\$ denominated assets, £0.1 million was charged for the additional cost incurred on the vesting of the first tranche of the LTIP shares, £0.1 million was charged for net actuarial losses on the defined benefit pension scheme and £0.4 million was charged for dividends paid in the year. Net shareholders' equity at 31 March 2010 was £19.1 million (2009: £17.6 million).

**Kevin Edwards**  
**Finance Director**  
9 June 2010

## Consolidated income statement

For the year ended 31 March 2010

		<b>Group</b>	
		<b>2010</b>	2009
	Note	<b>£000</b>	£000
<b>Continuing Operations</b>			
<b>Sales</b>	1	<b>37,706</b>	39,276
Cost of goods sold		<b>(25,575)</b>	(26,698)
<b>Gross profit</b>		<b>12,131</b>	12,578
Selling and administrative expenses before exceptional operating items		<b>(4,829)</b>	(5,280)
Exceptional operating items	1	<b>(721)</b>	(417)
Selling and administrative expenses		<b>(5,550)</b>	(5,697)
Research and development expenses		<b>(2,698)</b>	(2,667)
<b>Underlying operating profit</b>	1	<b>4,604</b>	4,631
Exceptional operating items	1	<b>(721)</b>	(417)
<b>Operating profit</b>		<b>3,883</b>	4,214
Interest receivable		<b>3</b>	12
Interest payable		<b>(181)</b>	(258)
Expected return on pension scheme assets		<b>578</b>	898
Interest on pension scheme obligations		<b>(1,072)</b>	(1,203)
<b>Finance costs - net</b>		<b>(672)</b>	(551)
<b>Underlying profit before tax</b>	1	<b>3,932</b>	4,080
Exceptional operating items	1	<b>(721)</b>	(417)
<b>Profit before tax from continuing operations</b>		<b>3,211</b>	3,663
Taxation		<b>(1,055)</b>	(1,138)
<b>Profit for the year attributable to equity shareholders</b>		<b>2,156</b>	2,525
Earnings per share - basic	3	<b>2.52p</b>	2.97p
Earnings per share - diluted	3	<b>2.52p</b>	2.96p

## Consolidated statement of comprehensive income

For the year ended 31 March 2010

<b>Profit for the year</b>		<b>2,156</b>	2,525
Other comprehensive income:			
Foreign exchange translation differences		<b>(315)</b>	1,782
Net gain/(loss) on hedge of net investment in foreign subsidiary		<b>82</b>	(889)
Actuarial gains and losses on defined benefit pension plan		<b>(78)</b>	(1,907)
Deferred tax on actuarial gains and losses		<b>22</b>	534
<b>Total comprehensive income/(expense) for the year attributable to equity shareholders</b>		<b>1,867</b>	2,045

## Consolidated statement of changes in equity

For the year ended 31 March 2010

	Share capital £'000	Own shares £'000	Merger Reserves £'000	Hedging reserve £'000	Trans- lation reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1 April 2008</b>	4,369	(429)	3,412	31	(256)	8,837	15,964
Dividends paid	-	-	-	-	-	(403)	(403)
Disposal of own shares	-	11	-	-	-	-	11
Transactions with owners	-	11	-	-	-	(403)	(392)
Profit for the year	-	-	-	-	-	2,525	2,525
<b>Other comprehensive income:</b>							
Exchange difference on hedging	-	-	-	(889)	-	-	(889)
Exchange difference on translation of overseas operation	-	-	-	-	1,782	-	1,782
Actuarial losses arising on defined benefit pension plan, net of deferred tax	-	-	-	-	-	(1,373)	(1,373)
Total comprehensive income for the year	-	-	-	(889)	1,782	1,152	2,045
<b>Balance at 31 March 2009</b>	<b>4,369</b>	<b>(418)</b>	<b>3,412</b>	<b>(858)</b>	<b>1,526</b>	<b>9,586</b>	<b>17,617</b>
Dividends paid	-	-	-	-	-	(403)	(403)
Disposal of own shares	-	108	-	-	-	(68)	40
Transactions with owners	-	108	-	-	-	(471)	(363)
Profit for the year	-	-	-	-	-	2,156	2,156
<b>Other comprehensive income:</b>							
Exchange difference on hedging	-	-	-	82	-	-	82
Exchange difference on translation of overseas operation	-	-	-	-	(315)	-	(315)
Actuarial losses arising on defined benefit pension plan, net of deferred tax	-	-	-	-	-	(56)	(56)
Total comprehensive income for the year	-	-	-	82	(315)	2,100	1,867
<b>Balance at 31 March 2010</b>	<b>4,369</b>	<b>(310)</b>	<b>3,412</b>	<b>(776)</b>	<b>1,211</b>	<b>11,215</b>	<b>19,121</b>

The hedging reserve represents the accumulated net currency variations on the Group's net investment hedge. The translation reserve represents the translation differences on the consolidation of the US operations' asset and liabilities.

## Consolidated balance sheet

As at 31 March 2010

	Note	2010 £000	2009 £000
<b>ASSETS</b>			
Goodwill		13,901	14,025
Intangible assets		614	486
Property, plant and equipment		5,580	5,911
Deferred tax assets arising on pension obligation	2	1,579	1,698
Other deferred tax assets		955	836
<b>Total non-current assets</b>		<b>22,629</b>	<b>22,956</b>
Inventories		4,405	6,104
Trade and other receivables		8,362	7,493
Cash and cash equivalents		2,381	1,013
<b>Total current assets</b>		<b>15,148</b>	<b>14,610</b>
<b>Total assets</b>		<b>37,777</b>	<b>37,566</b>
<b>LIABILITIES</b>			
Defined benefit pension obligation	2	(5,641)	(6,063)
Borrowings		(3,422)	(2,987)
Deferred tax liabilities		(984)	(974)
Deferred government grants		(265)	(200)
<b>Total non-current liabilities</b>		<b>(10,312)</b>	<b>(10,224)</b>
Borrowings		(547)	(1,811)
Trade and other payables		(7,255)	(7,688)
Current tax liabilities		(340)	(47)
Provisions and other liabilities		(202)	(179)
<b>Total current liabilities</b>		<b>(8,344)</b>	<b>(9,725)</b>
<b>Total liabilities</b>		<b>(18,656)</b>	<b>(19,949)</b>
<b>Net assets attributable to equity shareholders</b>		<b>19,121</b>	<b>17,617</b>
<b>SHAREHOLDERS' EQUITY</b>			
Issued capital		4,369	4,369
Own shares		(310)	(418)
Reserves		15,062	13,666
<b>Total equity</b>		<b>19,121</b>	<b>17,617</b>

## Consolidated statement of cash flows

For the year ended 31 March 2010

	2010 £000	2009 £000
<b>Cash flows from operating activities</b>		
Operating profit before pension and restructuring	6,034	4,340
Pension contribution paid towards deficit	(994)	(1,066)
Exceptional operating items	(654)	(114)
Cash generated from operations	4,386	3,160
Interest paid	(181)	(258)
Interest received	3	12
Tax paid	(695)	(397)
Net cash from operating activities	3,513	2,517
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	3	34
Purchases of property, plant, equipment and intangible assets	(878)	(1,224)
Capital grants received	84	129
Net cash from investing activities	(791)	(1,061)
<b>Cash flows from financing activities</b>		
Share issues	40	12
Increase in bank loans	278	123
Finance lease payments	(396)	(704)
Dividends paid	(403)	(403)
Net cash from financing activities	(481)	(972)
<b>Net increase in cash and cash equivalents</b>	2,241	484
Cash and cash equivalents at 1 April	57	192
Effect of foreign exchange rates	83	(619)
<b>Cash and cash equivalents at 31 March</b>	2,381	57
<b>Reconciliation of net cash flow to movement in net debt</b>		
Net increase in cash and cash equivalents	2,241	484
Effect of foreign exchange rates	83	(619)
Repayment of finance leases	396	704
Cash inflow from debt	(278)	(123)
Changes in net debt resulting from cash flows	2,442	446
New finance leases	(245)	(367)
Net movement in debt	2,197	79
Opening debt	(3,785)	(3,864)
Closing debt	(1,588)	(3,785)
<b>Analysis of net debt:</b>		
Cash at bank	2,381	1,013
Bank overdrafts and loans	(2,914)	(3,592)
Finance leases	(1,055)	(1,206)
Total net debt	(1,588)	(3,785)

## Notes to the Preliminary Statement

For the year ended 31 March 2010

### 1. Business and geographical segments

For management purposes, the Group is currently organised into three operating divisions, Satellite communications (Paradise Datacom), Microwave components & manufacturing services (Labtech Microwave), and Aerostructures (CML). These divisions are the basis on which the Group reports to the chief operating decision maker.

Business segment	2010			2009		
	Sales £000	Profit £000	Margin %	Sales £000	Profit £000	Margin %
Satellite communications	19,451	4,370	22%	18,338	3,631	20%
Microwave components & manufacturing services	7,786	61	1%	7,302	4	0%
Aerostructures	10,495	1,092	10%	13,865	2,049	15%
Eliminate intra-segment trading	(26)	-		(229)	-	
Continuing operations	37,706	5,523	15%	39,276	5,684	14%
Central costs		(919)			(1,053)	
Underlying operating profit	37,706	4,604	12%	39,276	4,631	12%
Net finance costs		(672)			(551)	
Underlying profit before tax	37,706	3,932	10%	39,276	4,080	10%
Exceptional operating items:						
Gain arising on transfers from the DB pension scheme		-			106	
Restructuring at CML and Labtech		(351)			(470)	
Litigation costs on patent suit		(169)			(10)	
Costs incurred on aborted transactions		(201)			(43)	
		(721)			(417)	
Taxation		(1,055)			(1,138)	
Total for the period	37,706	2,156		39,276	2,525	

### Geographical markets - sales by destination

	2010 £000	2009 £000
UK	16,035	15,884
Rest of Europe	3,091	6,922
North America	12,546	7,173
Rest of World	6,034	9,297
	37,706	39,276

## 2. Pension commitments

The Group operates a defined benefit pension scheme that was closed to new members in January 2000 and ceased further service accrual for employees in September 2002. The scheme has a net deficit, for which the Group agreed a Schedule of Contributions with the Trustee in May 2009. This requires payment of £820,000 a year for 3 years and £860,000 for 7 years thereafter, plus scheme expenses (previously £820,000 a year to 2016). In addition, the Group has arranged a £2.4 million guarantee in favour of the scheme, based on certain of the Group's assets. The scheme owns the 999 year lease of the premises occupied by Labtech Ltd, a Group subsidiary, at Presteigne, Powys. The premises are let under a 24 year lease expiring in 2018 at a current commercial rental of £75,750 per annum.

A transfer project that was initiated and accounted for in 2008/09 was completed during 2009/10. A provision of £183,000 was set aside at 31 March 2009 to cover supplementary sums payable by the Group. Of this, £170,000 was paid in the year and £13,000 remains to be paid over upon finalisation of the procedures for transfer.

The defined benefit scheme was valued by the scheme actuary at 31 March 2010. The key assumptions applied were:

	2010	2009
	%	%
Rate of increase in pensions in payment	3.30	2.70
Discount rate	5.60	6.83
Inflation	3.30	2.70
Expected return on plan assets (being the weighted average return for the scheme assets at 31 March, less administration expenses)	6.60	5.70
Mortality: On actuarial advice, the valuation for both 2009 and 2010 used the following assumptions:		
Current pensioners		PA92 Year of Birth
Future pensioners - period pre-retirement		PA92 Year of Birth (rated down 1 year)
Future pensioners - period post-retirement		PA92 Year of Birth
These tables imply life expectancy (in years) of:		
	<u>Male</u>	<u>Female</u>
Someone retiring now	21	24
Someone retiring in 20 years time	22	25

The market value of the assets and obligations of the defined benefit scheme, and the expected rates of return, are as follows:

	Value at 31 March		Long -term rate of return expected at 31 March	
	2010	2009	2010	2009
	£000	£000	%	%
Equities	10,700	7,490	8.00	7.50
Freehold property	700	700	10.80	9.00
Property fund	720	562	8.00	7.50
Government Bonds	-	1	4.50	3.75
Corporate Bonds	1,788	1,313	5.60	6.83
Cash	148	147	0.50	0.50
Fair value of assets	14,056	10,213		
Present value of scheme obligations	(19,697)	(16,276)		
Actuarial deficit	(5,641)	(6,063)		
Deferred tax	1,579	1,698		
Actuarial deficit after deferred tax	(4,062)	(4,365)		

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

<u>Assumption</u>	<u>Change in assumption</u>	<u>Impact on scheme liabilities</u>
Discount rate	Decrease by 0.5%	Increase by £1.3 million
Rate of inflation	Increase by 0.5%	Increase by £0.7 million
Rate of mortality	Increase by 1 year	Increase by £0.7 million

### 3. Earnings per Share

Basic earnings per share (EPS) were calculated based on the profit for the year divided by the weighted average number of ordinary shares outstanding during the period, excluding those held by the Employee Share Trust and those held by Directors that remain subject to performance conditions. These excluded shares are accounted for as an investment in own shares. The weighted average for 2010 was 85,396,497 (2009: 84,951,439). Diluted EPS is calculated by adjusting the number of shares used in the basic EPS calculation to assume conversion of all dilutive potential ordinary shares resulting from outstanding employee share plans. There were 330,500 exercisable share options in existence at the year end (2009: 330,500) the exercise price for which is below the average fair value of 14.7p per share of the ordinary shares in issue during the year. These create a dilution in shares of 253,452 (2009: 238,830).

In order to provide a trend measure of underlying performance, the Board also monitors underlying EPS, computed as follows:

	Earnings		EPS (basic & diluted)	
	2010 £000	2009 £000	2010 p	2009 p
Profit for the year	<b>2,156</b>	2,525	<b>2.52</b>	2.97
Add back: Exceptional operating items (see note 1)	<b>721</b>	417	<b>0.84</b>	0.49
Tax on these items	<b>(215)</b>	(117)	<b>(0.25)</b>	(0.14)
<b>Underlying</b>	<b>2,662</b>	2,825	<b>3.12</b>	3.32

### 4. General

This preliminary statement, which has been agreed with the Auditors, was approved by the Board on 8 June 2010. It is not the Company's statutory accounts.

The statutory accounts for the year ended 31 March 2009 received an audit report which was unqualified, did not contain statements under section 498 (2) or section 498 (3) of the Companies Act 2006 and have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 March 2010 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting.

Copies of the Annual Report and Accounts will be posted to shareholders by 31 August 2010. Copies will also be available for members of the public at the registered office, P.O. Box 25, South Marston Park, Swindon, SN3 4TR, and as a download from the Group's website, [www.intelek.plc.uk](http://www.intelek.plc.uk).