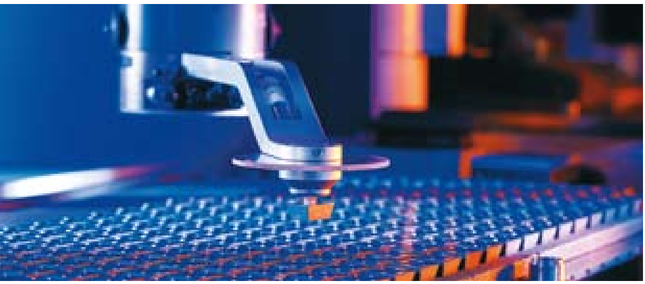
elektron plc

Investing in innovation

INTERIM REPORT 2009/2010



Who we are

Elektron Plc specialises in the design and manufacture of engineered products. Elektron owns a portfolio of leading brands with potential for significant growth.

Highlights

- > Revenue 27% lower at £14.2 million in difficult markets
- > Gross profit margin increased to 36.4% (2008: 34.0%), driven by continued focus on costs and higher margin sales
- > Sustained profitability at the operating level
- > Loss held to £0.4 million after tax (2008: £0.2 million profit) following exceptional charges relating to cost cutting
- > Signs of improvement in all markets but confidence still fragile
- > Emphasis on building sales in growing economies of China and Brazil
- > Technical selling resource strengthened in US
- > Continuing to evaluate potential acquisition opportunities that would add scale and value

Chairman's statement

Elektron designs and manufactures engineered products for industrial users and the distribution market. It operates worldwide and employs over 900 people in five countries.

In the first six months of the current year we have continued to see some of the most challenging conditions that the Group has faced for many years. Nevertheless, our prompt reactions in cutting costs and focussing on higher margin business have ensured that we made operating profits before exceptional charges.

The gross margin increased to 36.4% from 34.0%. At the operating level, profits were £0.2 million (2008: £0.8 million). Exceptional costs of £0.6 million related mainly to costs associated with moving manufacturing offshore (£0.4 million) and redundancy costs in the Hard Metals Division (£0.2 million). Basic and diluted loss per share on continuing businesses after exceptional costs was 0.45p (2008: 0.2p earnings per share).

We are seeing signs of improvements in our markets but we remain cautious. Nevertheless, we believe that the steps we have taken, and are continuing to take, position Elektron to obtain advantage from these improvements as they become more tangible and significant.

All Directors and staff are focussed on ensuring that Elektron is a profitable business with strong growth based on a strategy that concentrates on five key business drivers:

Acquire
Since 2003 we have built up the Group's tangible net assets per share from 1.29p to 8.44p as a result of a careful programme of acquisitions. We intend to continue this policy and several targets are under consideration.

Expand geographically
Elektron Components Division, our largest business unit, is a relatively international business whilst the other two divisions are currently UK-centric. It is a key requirement that divisions should seek to rapidly expand their businesses overseas to take advantage of the large available international markets for the Group's product portfolio.

Innovate
Innovation continues to be given significant priority throughout the Group since it is through new products that the highest margins will be earned.

Offshore
As a manufacturer, Elektron needs to ensure that manufacturing costs are kept to a minimum in order to meet international competition. An important part of our strategy is to manufacture in lower cost countries such as China and Tunisia. The Group is currently examining a third location for manufacturing.

Unlock talent
The Board is committed to attracting and retaining talent and, as detailed in the recent annual report, has introduced a Management Development Programme. Nominees to the programme interact with main Board members and participate in Group strategy setting, encouraging a constant flow of new ideas.

Divisional reports

Elektron Components sales: £8.8 million; operating profit £0.9 million

The division designs and manufactures a range of connectors and switches under the Arcolectric and Bulgin brand names.

The current financial year commenced with a high level of uncertainty in our markets resulting in a significant fall in sales, although these were in line with our expectations based on our analysis of prospects at the end of last year. However our early actions to cut costs meant that the first half of 2009/2010 yielded higher than anticipated operating results.

Throughout this period we have continued our strategy of investment in China, where we have augmented our sales force, engineering resources and senior management team to reflect the growth opportunities and significance China now represents to our business. Order intake in China is now running 24% ahead of the same period last year as a direct result of this focus, and the team continues to work on a number of exciting prospects. We are recruiting additional sales resources elsewhere in Asia, to further increase market penetration.

We are continuing to reconfigure the global sales teams, as the economic landscape changes in our key markets. In the US we are implementing a strategy which will grow our direct selling and field applications resources. Our new distributors and representatives in Central and South America (particularly Brazil) are making good inroads into their markets with projected significant double-digit growth in sales for 2009/2010.

Our primary large end user targeting strategy is proving successful, with several tangible opportunities uncovered and initial orders already received. We anticipate that our global focus on developing partnerships with large OEMs will present us with a number of strategic high value wins in the coming months.

Our new range of ATEX approved connectors designed for the intrinsic safety marketplace, where margins are highly attractive, were launched in September 2009. This first venture into the explosive atmosphere market sector is now at the roll-out and scale-up stage.

The continuing initiative to evolve our switch portfolio from commodity products will result in the launch of several significantly higher margin products in the second half and beyond. Further products that expand our wireless portfolio are also being launched which are enabling us to target new applications previously inaccessible to us, for example in the Oil and Gas sector.

Hard Metal sales: £2.8 million; operating loss £0.2 million

The division manufactures components using Tungsten Carbide technology and router cutters under the premium Titman brand name.

Following a full review of the businesses, we have successfully re-branded Howle Carbides into a leaner, more efficient business that is now known as Total Carbide. The global downturn in Oil and Gas production has affected our business but we have been quick to assess and make appropriate savings. Titman has adapted to the circumstances in a similar manner, and is performing as expected with profits running ahead of last year.

Over the next six months we expect to see a gradual improvement in the underlying markets in which we operate. Construction, oil exploration and automotive manufacture are all showing signs of recovery. A graduate training programme has been initiated and new university collaborations will bring much needed innovation to the division. We have developed a new range of alloys for Total Carbide with better corrosion properties allowing penetration into new markets.

Elektron Instruments sales: £2.6 million; operating loss £0.3 million

The division designs and supplies a range of instrumentation products with a focus on temperature, pressure and nano-measurement under the Digitron, Queensgate and Sifam brand names. Sifam branded products are being transferred to the Elektron Components Division and will be reported as part of that division in the full year results.

Sifam activity to date this year has included an accelerated plan to move control knob manufacturing to our facility in China, capitalising on the established expertise. Sifam also plans to outsource meter manufacturing to India. Both projects are scheduled to complete in early 2010, although the majority of meter project costs of approximately £0.5 million will be incurred in the second half of the current financial year. We are also developing a number of new opportunities for custom mouldings within the markets we serve.

The global downturn in semiconductor usage has affected Queensgate (the nano-measurement specialist), but contracts with key accounts have bolstered sales in this period.

Digitron has undergone a full business review and a strategic plan is in place to further accelerate development of existing and new systems. The Digitron Kyros™ wireless monitoring system was delivered ahead of schedule and has secured its first sale in Dubai. There are plans to fast track this to new geographical locations including the USA, Brazil and Australasia. We have also established a base in the Middle East, and continue to develop new distributors in key geographic locations.

By the fourth quarter we expect to have launched seven new ranges of instruments for pressure and temperature measurement, replacing our current ageing range of products.

Outlook

There are some signs of improvement in all our markets but nevertheless we take a cautious view of the economy and remain confident of meeting market expectations for the full year.

Keith Daley
Chairman

Group income statement

unaudited interim results to 31 July 2009

	Unaudited Half year to 31 July 2009 £'000	Unaudited Half year to 31 July 2008 £'000	Audited Year to 31 January 2009 £'000
Revenue from continuing operations	**14,207**	19,441	35,644
Cost of sales	**(9,033)**	(12,832)	(24,306)
Gross profit	**5,174**	6,609	11,338
Net operating expenses (including exceptional items)	**(5,501)**	(6,396)	(13,395)
Operating profit from continuing operations	**231**	818	1,102
Exceptional items	**(558)**	(605)	(3,159)
(Loss)/profit before finance costs from continuing operations	**(327)**	213	(2,057)
Finance income	**—**	30	41
Finance costs	**(61)**	(142)	(249)
(Loss)/profit before taxation from continuing operations	**(388)**	101	(2,265)
Taxation on continuing operations	**6**	69	233
(Loss)/profit attributable to shareholders	**(382)**	170	(2,032)
(Loss)/earnings per share – basic	**(0.45)p**	0.20p	(2.36)p
– diluted	**(0.45)p**	0.20p	(2.36)p

Group statement of recognised income and expense

unaudited interim results to 31 July 2009

	Unaudited Half year to 31 July 2009 £'000	Unaudited Half year to 31 July 2008 £'000	Audited Year to 31 January 2009 £'000
(Loss)/profit attributable to equity shareholders	**(382)**	170	(2,032)
Translation differences on foreign currency investments	**(289)**	27	298
Losses on revaluation of available-for-sale investments taken to equity	**—**	(101)	—
Total recognised (expense)/income attributable to equity shareholders	**(671)**	96	(1,734)

Group balance sheet
unaudited interim results as at 31 July 2009

	Unaudited 31 July 2009 £'000	Unaudited 31 July 2008 £'000	Audited 31 January 2009 £'000
Assets			
Non-current assets			
Property, plant and equipment	**4,392**	3,737	3,926
Available-for-sale financial assets	**478**	1,250	458
Deferred tax	**512**	390	485
Total non-current assets	**5,382**	5,377	4,869
Current assets			
Inventories	**5,022**	6,363	5,654
Trade and other receivables	**5,395**	7,871	5,861
Cash and cash equivalents	**430**	1,986	834
Total current assets	**10,847**	16,220	12,349
Total assets	**16,229**	21,597	17,218
Equity and liabilities			
Equity attributable to equity holders of the parent			
Called-up share capital	**4,279**	4,279	4,279
Share premium	**244**	244	244
Merger reserve	**1,047**	1,047	1,047
Capital redemption reserve	**163**	163	163
Other reserves	**145**	62	434
Retained earnings	**1,341**	3,920	1,723
Total equity	**7,219**	9,715	7,890
Non-current liabilities			
Long-term borrowings	**1,725**	1,511	1,701
Deferred tax	**—**	126	—
Accruals and deferred income	**153**	193	179
Long-term provisions	**64**	241	64
Total non-current liabilities	**1,942**	2,071	1,944
Current liabilities			
Trade and other payables	**4,465**	5,336	3,776
Short-term borrowings	**1,034**	2,780	1,516
Current portion of long-term borrowings	**796**	737	880
Current tax payable	**566**	481	613
Short-term provisions	**207**	477	599
Total current liabilities	**7,068**	9,811	7,384
Total liabilities	**9,010**	11,882	9,328
Total equity and liabilities	**16,229**	21,597	17,218

Group cash flow statement

unaudited interim results to 31 July 2009

	Unaudited 31 July 2009 £'000	Unaudited 31 July 2008 £'000	Audited 31 January 2009 £'000
Cash flows from operating activities			
(Loss)/profit before taxation (continuing activities)	**(388)**	101	(2,265)
Adjustments for:			
Depreciation charge	**475**	623	1,217
Loss on disposal of fixed assets	**2**	7	17
Restructuring and other exceptional charges	**525**	605	2,140
Impairment of tangible fixed assets	**57**	—	109
Fair value changes on available-for-sale financial assets	**(20)**	—	910
Interest receivable	**—**	(33)	(41)
Interest payable	**61**	145	249
Operating cash flow before working capital changes	**712**	1,448	2,336
Decrease/(increase) in trade and other receivables	**283**	(200)	2,042
Decrease in inventories	**584**	255	1,082
Increase/(decrease) in trade payables	**768**	397	(1,607)
Payments for restructuring and other exceptional costs	**(974)**	(971)	(2,202)
Other non-cash movements	**(170)**	43	109
Cash generated from operations	**1,203**	972	1,760
Interest paid	**(61)**	(145)	(249)
Taxation (paid)/received	**(1)**	31	147
Net cash generated from operating activities	**1,141**	858	1,658
Cash flows from investing activities			
Purchase of available-for-sale financial assets	**—**	(1,351)	(1,368)
Purchase of property, plant and equipment	**(1,003)**	(495)	(1,521)
Proceeds of sale of property, plant and equipment	**—**	17	25
Interest received	**—**	33	41
Net cash used in investing activities	**(1,003)**	(1,796)	(2,823)
Cash flows from financing activities			
Movement in long-term borrowings	**(200)**	1,100	900
Movement in short-term borrowings	**(482)**	397	(867)
New capital leases	**492**	113	749
Payment of hire purchase and finance liabilities	**(352)**	(119)	(221)
Dividends paid	**—**	(390)	(385)
Purchase of own shares	**—**	(164)	(164)
Net cash (used in)/generated from financing activities	**(542)**	937	12
Net decrease in cash and cash equivalents	**(404)**	(1)	(1,153)
Cash and cash equivalents at the beginning of period	**834**	1,987	1,987
Cash and cash equivalents at the end of period	**430**	1,986	834

Group statement of changes in equity

unaudited interim results to 31 July 2009

	Share capital £000	Share premium £000	Merger reserve £000	Capital redemption reserve £000	Other reserves £000	Retained earnings £000	Total £000
At 1 February 2009	4,279	244	1,047	163	434	1,723	7,890
Transfer from income and expense account	—	—	—	—	—	(382)	(382)
Exchange differences	—	—	—	—	(289)	—	(289)
At 31 July 2009	**4,279**	**244**	**1,047**	**163**	**145**	**1,341**	**7,219**

Notes to the unaudited interim results

to 31 July 2009

1. Accounting policies

The interim financial information has been prepared on the basis of International Financial Reporting Standards (IFRS). Full details of accounting policies are included in the annual report for the year ended 31 January 2009.

Fixed annual charges are apportioned to the interim period on the basis of time elapsed. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

The Group has not applied IAS 34 "Interim Financial Reporting" which is not mandatory for UK groups, in the preparation of these interim financial statements.

2. Other information

The financial information in this statement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The financial information in respect of the year ended 31 January 2009 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Copies of the interim results are available to download from the Group's website www.elektronplc.com.
Hard copies are available free of charge from the Company's registered office at Melville Court, Spilsby Road, Romford, Essex RM3 8SB.

Operating units

Elektron Components Limited
Melville Court
Spilsby Road
Romford
Essex RM3 8SB
Tel: +44 (0) 1708 336300
Fax: +44 (0) 1708 374616
Web: www.arcolectric.co.uk
Web: www.bulgin.co.uk

Elektron Components Tunisie Sarl
13 Rue 62128
Zone Industrielle Ibn Khaldoun
Citie Ettahir
2042 Tunis
Tunisia
Tel: +216 71 923 600
Fax: +216 71 924 142

Total Carbide Limited
Picts Lane
Princes Risborough
Buckinghamshire
HP27 9EA
Tel: +44 (0) 1844 275171
Fax: +44 (0) 1844 342514
Web: www.totalcarbide.com

Elektron Instruments Limited
Woodland Road
Torquay
Devon TQ2 7AY
Tel: +44 (0) 1803 407700
Fax: +44 (0) 1803 613926
Web: www.sifam.com

Elektron Components Corporation
31–315 Plantation Drive
Thousand Palms
California
USA
Tel: +01 760 343 3650
Fax: +01 760 343 3651
Web: www.arcolectric.com

Elektron Components (Shenzhen) Company Limited
Xingye Industrial Park
23 Xinbu Xin Road
Xinbu Village
Tongle
Longgang District
Shenzhen
China
Tel: +86 755 2893 1218
Fax: +86 755 2893 1132

Titman Tip Tools Limited
Valley Road
Clacton-on-Sea
Essex CO15 6PP
Tel: +44 1255 220123
Fax: +44 1255 221421
Web: www.titman.co.uk

Digitron Instrumentation Limited
Woodland Road
Torquay
Devon TQ2 7AY
Tel: +44 (0) 1803 407693
Fax: +44 (0) 1803 407699
Web: www.digitron.co.uk

Elektron Plc
Melville Court
Spilsby Road
Romford
Essex RM3 8SB

Tel: +44 (0) 1708 336300
Fax: +44 (0) 1708 347581
Email: mail@elektronplc.com
Web: www.elektronplc.com