Designing a connected world

Half-Year Report 2013-14
Elektron Technology plc

Highlights

£23.7m
Revenue

Contents

- Revenue: £23.7m (H1 FY13: £25.7m, H2: £24.0m)
- Operating loss*: £0.1m (H1 FY13: £1.3m profit, H2: £0.1m loss)
- Overdue order backlog at H1 end: £2.6m (2013: £0.6m)
- Order intake: £27.1m (H1 FY13: £26.7m, H2: £23.2m)
- Non-recurring or special items: £2.1m, relating to streamlining of business and operational recovery and review costs
- Net debt: £5.8m (31 January 2013: £5.0m) as a result of strong working capital management and receipt of £1.2m initial sale proceeds of Total Carbide
- Issues in executing two factory moves resulted in delays restarting production and cost overruns
- Operational management strengthened and improvement plan implemented, expected to lead to recovery by the end of FY14
- Connectivity markets showing encouraging growth; slowing rate of decline in Instrumentation, Monitoring and Control (IMC)
- Continued progress in implementing strategy:
  – sale of non-core operation, Total Carbide, for £2.3m
  – new product launches including Checkit and Bulgin 7000 Series Connectors
- £1.1m investment in new product development (H1 FY13: £0.4m, H2: £1.0m), with several significant new product introductions
- Sales of new products introduced in the last three years: £1.0m (H1 FY13: £0.1m)

* before non-recurring and special items

Chairman's and Chief Executive's statement

Keith Daley Chairman

John Wilson Chief Executive

This has been a very challenging period for us. However the operational issues we experienced have been addressed and we are already seeing improvements in performance and in the sales backlog.

Overview

The financial results for this half are disappointing, reflecting a very challenging period for the Group. Elektron's revenue and cash flow were adversely affected by production delays following two factory relocations and the unplanned exceptional costs incurred in order to support production.

As a result of the production delays, more than £2m of sales orders that were due for delivery to customers in the first half of the year have been deferred to the second half, resulting in a temporary reduction of more than £1m in operating profit and cash generation. Additionally, £1.0m of exceptional costs have been incurred to support production and to begin the critical recovery of the lag between orders received and sales shipped which is expected in the second half of the current financial year, as manufacturing returns to its previous levels of efficiency.

Combined with increased restructuring investment, this has resulted in a reported operating loss of £2.2m (H1 FY13: £0.6m profit). Initial cash proceeds of £1.2m on the sale of Total Carbide Ltd for £2.3 million and reductions in net working capital partly mitigated the cash impact of the operating loss, leaving net debt of £5.8m at 31 July 2013 (31 January 2013: £5.0m).

Overall demand for the Group's products remains satisfactory, with orders in H1 FY14 running 1% ahead of the same period last year. Demand for Connectivity brands is up 10%, whereas order intake for IMC brands has declined by 11%, in part due to supply issues.

Since the period end, production volumes have stabilised and output is once again at planned levels, with further progress in reducing the backlog of orders received versus shipments made expected in the coming months. The Group has continued to implement its strategy and has made considerable progress on several fronts, including the sale of Total Carbide Ltd, improved working capital control and further new product introductions such as Checkit in February 2013 and the Bulgin 7000 series connector range in August 2013.

Subject to the progress above continuing, the Group expects to see an improved trading performance in the second half compared with both the same period in the prior year and the first half of this year.

Production

The Group has completed the consolidation of manufacturing for its Arcolectric brand into Elektron's long-established Connectivity production facility in Tunisia, with a corresponding reduction in activity at the Group's facility in China, where labour costs and internal logistical costs were making production uncompetitive. The Group's Redhill factory, where certain IMC products were manufactured, was also closed.

The relocation of Ophthalmic production from Redhill to Torquay was implemented smoothly. However, legacy data issues relating to incomplete and incorrect bills of material and routings resulted in delays in Sheen and Wallace production, which have now stabilised. Despite the manufacturing of buffer stock levels to facilitate a smooth transition, the Arcolectric transfer from China to Tunisia encountered significant issues in scaling up its moulding component capacity. The strengthening of the factory management team and recruitment of additional engineers and technical specialists took longer than planned and further issues were encountered with the re-commissioning of complex, high tolerance auto-assembly machines. As a consequence, the Group was unable to meet demand for certain products resulting in a build up of overdue orders. Sales of the Arcolectric, Bulgin, Sheen and Wallace brands have all been directly or indirectly affected by these difficulties.

Chairman's and Chief Executive's statement
continued

£1.1m
investment in new product development

In addition to the impact on sales, the Group incurred unplanned exceptional costs to address the underlying causes of the production difficulties and to mitigate their effects. These exceptional costs have included consulting, logistics, temporary labour and staff overtime. Overall, remedial and transitional costs to support recovery amounted to £1.0m.

The Group recognised that a significant strengthening in the operational capability of its senior management in the UK and in Tunis was required. A new Group Director of Operations was appointed in July 2013 to spearhead the operational efficiency initiatives. Towards the latter part of the period, more advanced processes and metrics began to be implemented, which are already showing improvements in production control and performance with an increase in output.

Much remains to be done in the second half of the year, both to bring customer lead times back to normal levels and to improve cost efficiency. However, the situation has now substantially stabilised and production in the new locations is consistently achieving levels sufficient to meet normal demand with a plan in place to reduce the backlog close to historic levels by the end of the financial year.

Financial performance
Sales from continuing operations were £23.7m (H1 FY13: £25.7m). This is a direct consequence of the Group's backlog of over £2m in unfulfilled orders, representing revenue that in normal circumstances would have been generated in the first half of the financial year, but that is now expected to be generated in the second half.

Given the Group's sales typically generate a contribution before fixed costs of more than 50%, the deferral of more than £2m of sales has resulted in an estimated reduction in profits by more than £1m, the substantial majority of the £1.4m reduction between the £0.1m operating loss before non-recurring or special items in H1 FY14, compared with a £1.3m profit in H1 FY13.

Gross margin of £8.3m was 35.0% of sales, compared with 37.7% of sales in H1 FY13, as fixed production costs are recovered over lower sales.

Net operating expenses (excluding non-recurring or special items) were £8.4m, unchanged from H1 FY13.

Charges for non-recurring or special items were £2.1m, including £0.9m restructuring costs relating to the streamlining of operations, £1.0m operational recovery and review costs and £0.1m each in respect of IFRS 2 charge and amortisation of acquisition-related intangible assets. Further charges under each of these categories are expected in the second half of the year, but the operational recovery costs are likely to be at a significantly lower level than in the first half.

Finance costs of £0.2m were slightly higher than the prior year's £0.1m.

The Group has recognised a £0.3m deferred tax credit (H1 FY13: £0.2m tax charge) arising on the loss before taxation.

Discontinued operations contributed a loss of £0.7m during the period, as set out in Note 5 to the Interim Financial Statements and also below.

Cash generation and net debt
The sale of Total Carbide and reductions in net working capital substantially mitigated the cash impact of the losses from continuing and discontinued operations. The Group also benefitted from a tax rebate of £0.3m.

Investment in fixed assets was £1.7m (H1 FY 13: £1.4m), the majority of which was for new product development.

Net debt at 31 July 2013 was £5.8m (31 January 2013: £5.0m).

Dividends
The Group will not be paying an interim dividend (H1 FY13: nil).

Strategic progress
Notwithstanding the substantial operational challenges since the start of the year, the Group has continued to invest and to execute its strategy of innovating to create a high growth product portfolio, focusing resources behind winning propositions, streamlining operations to reduce costs and investing in world class infrastructure, people and capabilities.

Selective price increases since the period end have been driven through the Group's sales channels and, in conjunction with a programme to reduce operating expenses across the Group, are expected to benefit results in the second half.

Chairman's and Chief Executive's statement
continued

+900%
new product sales reach £1.0m

We have continued to execute our strategy of focusing resources and investing for growth, with the sale of Total Carbide and exiting our Chinese manufacturing operations, along with new product launches.

Innovating for growth
Capitalised investment in new product development in the period was £1.1m, slightly more than in the second half of FY13, following the establishment of the Technology Centre in Cambridge. Significant innovations introduced to the market since the start of the financial year include:

- Checkit, a digitised wireless HACCP food safety monitoring device
- Bulgin 7000 Series Connectors, a rapid twist coupling system specifically aimed for equipment requiring higher current ratings with prevention of dust and water ingress. This increases the Group's addressable connector market by c$200m
- Additions to the Queensgate Instruments range of nanopositioning devices, using Elektron's patent pending Dual Sensor technology
- Extensions to the MPSII ophthalmic range, enabled for the Chinese and Japanese markets
- A new range of graphene-based substrates for the electron microscopy market, marketed under the Agar brand. The graphene electronics market is expected to achieve a compound annual growth rate of more than 55% from 2013-2023 (source: Marketsandmarkets.com, 2013).

In total sales of new products, defined as those introduced within the past three years, were £1.0m, 4% of sales (H1 FY13: £0.1m, less than 1% of sales). Sales of the MPSII have been particularly pleasing, with year-to-date orders up nearly 200% compared with last year.

Focusing resources for success
The rationalisation of the Group's product portfolio has continued with the sale of Total Carbide and the discontinuance of sales under the Tinsley brand. Total Carbide was sold in June 2013 for £2.3m, approximately its net asset value at the date of sale. The proceeds comprised £1.23m in cash and £1.05m (at the listing price of 13.5p per share) in shares in Versarien plc ('Versarien'), which represented approximately 10.3% of the issued share capital of Versarien.

At 31 July 2013, the Versarien closing bid share price on AIM was 11p. In the balance sheet at 31 July 2013, the Group's investment in Versarien is recorded as an asset available for sale and, in recognition of the Board's view of the highly illiquid nature of a substantial holding of this investment, the value of the shares was written down to £0.8m, representing an 18% discount to the AIM market price. The Versarien shares were subsequently sold for £0.8m less costs on 15 August 2013, thereby completing the Group's exit from the Total Carbide business.

The Tinsley brand covered a disparate range of sub-scale activities in the UK and India, with little connection to the remainder of the Group's IMC operations and, in India in particular, very little competitive differentiation. Provisions of £0.2m have been recorded for termination costs and asset write-downs.

Further brand rationalisation will be considered in cases where there is a strong economic or strategic justification.

Chairman's and Chief Executive's statement
continued

+10%
orders for Connectivity brands

Streamlining operations
Following a difficult transitional period, Arcolectric switch production in Tunisia is now stable alongside Bulgin and the focus is now on increasing operational efficiency, capacity optimisation and customer service. Political events in Tunisia have not disrupted the Group's operations.

All Elektron's manufacturing operations in China have now ceased, with the exception of Sifam knob production, and a small R&D facility in China has also closed. The Group expects to complete its exit from manufacturing in China within the next twelve months, but will retain its sales organisation in Shanghai to support continued business development in this important market.

The Group has closed a small warehouse in the USA, as part of a programme to drive down inventory levels and to simplify logistics.

Preparations are well-advanced for the relocation of Carnation Design production to the Group's IMC manufacturing centre in Torquay and for the consolidation of all UK logistics at that site. Activities on the West Molesey site are being scaled down significantly, but will not now be closed down completely. Rent of the site has been agreed at half the previous level.

Investment in infrastructure, people and capabilities
The roll-out of the Group's single global Enterprise Resource Planning system is now complete, the culmination of a multi-year investment programme. This infrastructure will increasingly deliver rapid consistent information to support decision making. The value of this system will be further enhanced via complementary analytical utilities and efficient process design.

Sales performance by segment
Sales were down just £0.3m compared with the six months ended 31 January 2013 ('H2 FY13'), but were £2.0m down on H1 FY13 due to the operational difficulties experienced.

Sales in the **UK** and the **Americas** were similar to the second half of the previous year. Sales in the **Rest of EMEA** increased by £0.5m, but the **Asia Pacific** region saw a £0.6m sales decline due to supply challenges with Wallace and Connectivity brands, coupled with a reduction in recurring revenue from design-in legacy Queensgate products.

Sales of **Connectivity** products were £13.6m (H1 FY13: £14.7m, H2 FY13: £13.5m). Orders for the Group's Connectivity brands were actually 10% higher than in H1 FY13 and 31% above H2 FY13, with all the Group's Connectivity brands recording increases in orders. However the Group was unable to satisfy this demand during the period, resulting in the decline in reported sales. The introduction of the Bulgin 7000 series in August 2013 is expected to build on the Bulgin 6000 series push/pull series launched last year.

IMC has underperformed, with sales of £9.0m (H1 FY13: £9.8m, H2 FY13: £9.3m). Of the core revenue generating brands, those focused on distribution or low value instruments, such as QADOS, Agar and Digitron, have seen a slight overall increase on the prior year. However, this has been offset by significant reductions in sales from the Sheen and Wallace brands as a result of production delays, and from Carnation mainly due to its exposure to the continuing pressure on UK NHS spending. The Sheen and Wallace issues are now showing signs of improvement, and the Carnation site in Heckmondwike, Yorkshire is due to close during H2, with production moving to Torquay.

There has been a strong performance from Elektron's ophthalmic products, with encouraging interest from Asia Pacific in the recently launched international version of the macular pigment screener, MPSII. Additionally, as Queensgate Instrument's new generation of products is becoming available we are seeing encouraging early interest from end users and equipment manufacturers.

Following the sale of Total Carbide, the **Materials** segment now only comprises Titman Tip Tools. Sales of £1.1m were slightly lower than in the equivalent period last year (£1.2m).

Chairman's and Chief Executive's statement
continued

Customer demand remains encouraging and our new product development programme has been unaffected by the operational problems. I anticipate an improved performance for the Group over the remainder of the year.

Board
After three years' service, Simon Acland, a non-executive director and Chairman of the Remuneration Committee, has today announced his intention to stand down from the Board at a date to be determined.

The Board thanks Simon for his significant contribution.

An announcement on the appointment of a new non-executive director will be made in due course.

Outlook
The Group's operations have now stabilised and recovery of the sales backlog is expected during the second half of the year. Some further restructuring and operational recovery and review costs will be incurred in the second half, but are expected to be at a lower level. Selective price increases and reduced operating expenses are also expected to benefit profitability.

The scale of the order backlog means that visibility of future sales is longer than normal. Demand for Connectivity products remains strong and, whilst parts of IMC have been less resilient, the Board anticipates an improved performance for the Group over the remainder of the year.

Keith Daley
Chairman

John Wilson
Chief Executive Officer

Consolidated statement of comprehensive income

unaudited interim results to 31 July 2013

		Unaudited Half year to 31 July 2013 £m	Unaudited Half year to 31 July 2012 Restated (see Note 1) £m	Audited Year to 31 January 2013 Restated (see Note 1) £m
Revenue (see Note 2)		**23.7**	25.7	49.7
Cost of sales		**(15.4)**	(16.0)	(31.9)
Gross profit		**8.3**	9.7	17.8
Operating expenses				
Net operating expenses (excluding non-recurring or special items)		**(8.4)**	(8.4)	(16.6)
Operating (loss)/profit before non-recurring or special items		**(0.1)**	1.3	1.2
Non-recurring or special items (see Note 3)		**(2.1)**	(0.7)	(2.2)
Total operating expenses		**(10.5)**	(9.1)	(18.8)
Operating (loss)/profit		**(2.2)**	0.6	(1.0)
Finance costs		**(0.2)**	(0.1)	(0.3)
(Loss)/profit before taxation		**(2.4)**	0.5	(1.3)
Taxation (see Note 4)		**0.3**	(0.2)	0.5
(Loss)/profit after taxation from continuing operations		**(2.1)**	0.3	(0.8)
Discontinued operations (see Note 5)		**(0.7)**	0.3	0.4
(Loss)/profit for the year attributable to equity shareholders		**(2.8)**	0.6	(0.4)
Other comprehensive (expense)/income				
Currency translation differences on foreign currency net investments		**–**	(0.3)	(0.2)
Total other comprehensive (expense)/income		**–**	(0.3)	(0.2)
Total comprehensive income for the period attributable to equity shareholders		**(2.8)**	0.3	(0.6)
(Loss)/earnings per share from Continuing Operations (see Note 6)	– Basic and Diluted EPS	**(2.0)p**	0.3p	(0.8)p
	– Adjusted and Diluted adjusted EPS	**(0.3)p**	0.8p	0.8p
Adjusted (loss)/earnings per share from Continuing and Discontinued Operations (see Note 6)	– Basic and Diluted EPS	**(2.7)p**	0.6p	(0.4)p
	– Adjusted and Diluted adjusted EPS	**(0.9)p**	1.0p	1.2p

The accompanying Notes form an integral part of this consolidated interim financial information.

Consolidated balance sheet

unaudited interim results to 31 July 2013

	Unaudited 31 July 2013 £m	Unaudited 31 July 2012 £m	Audited 31 January 2013 £m
Assets			
Non-current assets			
Goodwill	**1.2**	1.3	1.2
Other Intangible assets	**5.7**	4.0	4.8
Property, plant and equipment	**3.8**	5.1	5.4
Deferred tax	**0.7**	0.2	0.5
Total non-current assets	**11.4**	10.6	11.9
Current assets			
Inventories	**6.5**	9.0	7.8
Investments	**0.8**	–	–
Trade and other receivables	**9.8**	11.9	10.0
Cash and cash equivalents	**1.4**	1.7	1.2
Total current assets	**18.5**	22.6	19.0
Total assets	**29.9**	33.2	30.9
Current liabilities			
Trade and other payables	**10.5**	9.3	9.3
Dividend payable	**–**	0.6	–
Borrowings	**1.1**	1.3	0.6
Current portion of long-term borrowings	**1.6**	0.4	0.4
Current tax payable	**–**	0.3	–
Provisions	**0.6**	1.0	1.1
Total current liabilities	**13.8**	12.9	11.4
Non-current liabilities			
Long-term borrowings	**4.5**	4.6	5.2
Long-term provisions	**–**	0.6	–
Total non-current liabilities	**4.5**	5.2	5.2
Total liabilities	**18.3**	18.1	16.6
Net assets	**11.6**	15.1	14.3
Equity attributable to equity holders of the parent			
Called-up share capital	**6.0**	6.0	6.0
Share premium	**5.4**	5.4	5.4
Merger reserve	**1.1**	1.1	1.1
Capital redemption reserve	**0.2**	0.2	0.2
Own shares	**(3.5)**	(3.5)	(3.5)
Other reserves	**0.4**	0.2	0.3
Translation reserve	**(0.2)**	(0.3)	(0.2)
Retained earnings	**2.2**	6.0	5.0
Total equity	**11.6**	15.1	14.3

The accompanying Notes form an integral part of this consolidated interim financial information.

Consolidated statement of changes in equity

unaudited interim results to 31 July 2013

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Total £m
At 1 February 2012	6.0	5.4	1.1	0.2	(3.0)	0.1	–	6.0	15.8
Profit for the period	–	–	–	–	–	–	–	0.6	0.6
Currency translation differences on foreign currency net investments	–	–	–	–	–	–	(0.3)	–	(0.3)
Total comprehensive income for the period	–	–	–	–	–	–	(0.3)	0.6	0.3
Dividends on ordinary shares	–	–	–	–	–	–	–	(0.6)	(0.6)
Purchase of treasury shares	–	–	–	–	(0.5)	–	–	–	(0.5)
Credit in respect of share based payments	–	–	–	–	–	0.1	–	–	0.1
At 31 July 2012	6.0	5.4	1.1	0.2	(3.5)	0.2	(0.3)	6.0	15.1
Profit for the period	–	–	–	–	–	–	–	(1.0)	(1.0)
Currency translation differences on foreign currency net investments	–	–	–	–	–	–	0.1	–	0.1
Total comprehensive expense for the period	–	–	–	–	–	–	0.1	(1.0)	(0.9)
Credit in respect of share based payments	–	–	–	–	–	0.1	–	–	0.1
At 1 February 2013	6.0	5.4	1.1	0.2	(3.5)	0.3	(0.2)	5.0	14.3
Loss for the period	–	–	–	–	–	–	–	(2.8)	(2.8)
Total comprehensive expense for the period	–	–	–	–	–	–	–	(2.8)	(2.8)
Credit in respect of share based payments	–	–	–	–	–	0.1	–	–	0.1
At 31 July 2013	**6.0**	**5.4**	**1.1**	**0.2**	**(3.5)**	**0.4**	**(0.2)**	**2.2**	**11.6**

Foreign currency translation differences for the period ended 31 July 2013 amount to less than £0.1m.

The Treasury shares are held by the Elektron Technology 2012 Employee Benefit Trust.

The accompanying Notes form an integral part of this consolidated interim financial information.

Consolidated statement of cash flows

unaudited interim results to 31 July 2013

Net cash flows from operating activities	**Unaudited Half year to 31 July 2013 £m**	Unaudited Half year to 31 July 2012 £m	Audited Year to 31 January 2013 £m
(Loss)/profit before taxation			
– From continuing operations	**(2.4)**	0.5	(1.3)
– From discontinued operations	**(0.7)**	0.3	0.5
Adjustments for:			
Depreciation charge	**0.6**	0.6	1.1
Non-recurring or other special items	**2.1**	0.7	2.3
Amortisation of intangible assets	**0.3**	0.1	0.3
Loss/(gain) on disposal of discontinued operations	**0.3**	–	(0.2)
Interest payable	**0.2**	0.1	0.3
Operating cash flow before working capital changes and non-recurring or special items	**0.4**	2.3	3.0
(Increase)/decrease in trade and other receivables	**(0.3)**	(0.4)	2.0
Decrease/(increase) in inventories	**0.6**	0.5	1.4
Increase/(decrease) in trade payables	**1.3**	0.2	0.1
Payments for non-recurring or other special items	**(2.4)**	(0.5)	(2.5)
Other non-cash movements	**(0.1)**	(0.3)	(0.1)
Cash (absorbed by)/generated from operations	**(0.5)**	1.8	3.9
Interest paid	**(0.2)**	(0.1)	(0.3)
Taxation received/(paid)	**0.3**	–	(0.3)
Net cash (outflow)/inflow from operating activities	**(0.4)**	1.7	3.3
Investing activities			
Purchase of property, plant and equipment	**(0.3)**	(0.6)	(1.5)
Purchase of other intangible assets	**(1.4)**	(0.8)	(1.9)
Disposal of business	**1.2**	–	0.6
Net cash used in investing activities	**(0.5)**	(1.4)	(2.8)
Cash flows from financing activities			
Increase in bank loans	**1.1**	1.1	0.9
New finance leases	**0.3**	0.3	0.6
Payment of hire purchase and finance liabilities	**(0.3)**	(0.3)	(0.5)
Purchase of own shares	**–**	(0.5)	(0.5)
Dividends paid	**–**	–	(0.6)
Net cash generated from/(used in) financing activities	**1.1**	0.6	(0.1)
Net increase in cash and cash equivalents	**0.2**	0.9	0.4
Cash and cash equivalents at the beginning of period	**1.2**	0.8	0.8
Cash and cash equivalents at the end of period	**1.4**	1.7	1.2

The accompanying Notes form an integral part of this consolidated interim financial information.

Notes to the unaudited interim results
to 31 July 2013

1. Accounting policies and prior year restatement

The interim financial information has been prepared on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union. Full details of accounting policies are included in the Annual Report for the year ended 31 January 2013. 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.

Certain prior year figures within the consolidated statement of comprehensive income have been restated to include all factory property costs in cost of sales. This restatement has increased cost of sales by £0.7m in H1 FY13 and by £1.4m in the year to 31 January 2013, with a corresponding reduction in net operating expenses (excluding non-recurring or special items).

2. Segmental sales information

Geographic	Half year to 31 July 2013 £m	Half year to 31 January 2013 £m	Half year to 31 July 2012 £m	Year to 31 January 2013 £m
United Kingdom	**10.6**	10.7	10.6	21.3
Rest of Europe, Middle East & Africa	**6.4**	5.9	6.9	12.8
Asia Pacific	**3.0**	3.6	4.1	7.7
Americas	**3.7**	3.8	4.1	7.9
Total	**23.7**	24.0	25.7	49.7

Product segment	Half year to 31 July 2013 £m	Half year to 31 January 2013 £m	Half year to 31 July 2012 £m	Year to 31 January 2013 £m
Connectivity	**13.6**	13.5	14.7	28.2
Instrumentation, Monitoring & Control	**9.0**	9.3	9.8	19.1
Materials	**1.1**	1.2	1.2	2.4
Total	**23.7**	24.0	25.7	49.7

3. Non-recurring or special items

Non-recurring or special items are disclosed separately to improve visibility of underlying business performance. Management has defined such items as restructuring and site closure costs, acquisition costs, amortisation of acquired intangible assets, share-based payments and non-recurring items incurred outside the normal course of business.

	Half year to 31 July 2013 £m	Half year to 31 July 2012 £m	Year to 31 January 2013 £m
Restructuring costs	**0.9**	0.5	1.9
Operational recovery costs	**1.0**	–	–
IFRS 2 charge	**0.1**	0.1	0.2
Amortisation of acquisition intangible assets	**0.1**	0.1	0.2
Total	**2.1**	0.7	2.3

4. Taxation

The tax credit/(charge) on (loss)/profit from continuing operations before taxation has been estimated at a rate of 12.5% (July 2012: 40.0% charge, January 2013: 38.5% credit).

5. Discontinued Operations

Discontinued operations comprise the ASL brand (sold on 2 January 2013), Total Carbide Limited (sold on 12 June 2013; certain completion accounting and other matters remain to be completed with acquirer) and the Tinsley brand (activities discontinued during the period to 31 July 2013).

The results of the discontinued operations which have been included in the consolidated statement of comprehensive income were as follows:

	Half year to 31 July 2013 £m	Half year to 31 July 2012 £m	Year to 31 January 2013 £m
Revenue	**1.8**	4.2	6.9
Expenses	**(2.2)**	(3.9)	(6.6)
(Loss)/profit before tax	**(0.4)**	0.3	0.3
Attributable tax expense	**–**	–	(0.1)
(Loss)/gain on disposal of discontinued operations	**(0.3)**	–	0.2
Attributable tax expense	**–**	–	–
Net (loss)/gain from discontinued operations attributable to equity shareholders	**(0.7)**	0.3	0.4

Expenses of discontinued operations in the year to 31 January 2013 included £0.1m classified as non-recurring or special items (2014 H1 and 2013 H1: £nil).

Notes to the unaudited interim results

to 31 July 2013 continued

6. (Loss)/earnings per share

The calculation of the basic, adjusted and diluted earnings per share is based on the following data:

(Loss)/earnings

(Loss)/earnings from Continuing Operations	**31 July 2013 £m**	31 July 2012 £m	31 January 2013 £m
(Loss)/earnings for the purposes of the basic (loss)/earnings per share being net profit attributable to the owners of the Company	**(2.1)**	0.3	(0.8)
Adjustment in respect of non-recurring or special items net of taxation of £0.3m (July 2012: £0.2m, January 2013 : £0.6m)	**1.8**	0.5	1.6
(Loss)/earnings for the purposes of adjusted (loss)/earnings per share	**(0.3)**	0.8	0.8

(Loss)/earnings from Continuing and Discontinued Operations	**31 July 2013 £m**	31 July 2012 £m	31 January 2013 £m
(Loss)/earnings for the purposes of the basic (loss)/earnings per share being net profit attributable to the owners of the Company	**(2.8)**	0.6	(0.4)
Adjustment in respect of non-recurring or special items net of taxation of £0.3m (July 2012: £0.2m, January 2013: £0.6m)	**1.8**	0.5	1.7
(Loss)/earnings for the purposes of adjusted (loss)/earnings per share	**(1.0)**	1.1	1.3

Number of shares	**31 July 2013**	31 July 2012	31 January 2013
Weighted average number of ordinary shares for the purposes of basic earnings per share	**104,450,615**	106,339,518	105,375,535
Effect of dilutive potential ordinary shares: Share options	**1,503,397**	275,000	275,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**105,594,012**	106,614,518	105,650,535

(Loss)/earnings per share

From Continuing Operations	**31 July 2013**	31 July 2012	31 January 2013
Basic and Diluted EPS	**(2.0)p**	0.3p	(0.8)p
Adjusted and Diluted adjusted EPS	**(0.3)p**	0.8p	0.8p
From Continuing and Discontinued Operations			
Basic and Diluted EPS	**(2.7)p**	0.6p	(0.4)p
Adjusted and Diluted adjusted EPS	**(0.9)p**	1.0p	1.2p

7. Cautionary statement

This interim financial information has been prepared only for the shareholders of Elektron as a whole and its sole purpose and use is to assist shareholders to exercise their governance rights. Elektron and its directors and employees are not responsible for any other purpose or use or to any other person in relation to this report.

The report contains indications of likely future developments and other forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. Key risks and their mitigation have not changed materially in the period from those disclosed on pages 15 to 16 of the annual financial statements for the year ended 31 January 2013.

These and other factors could adversely affect the Group's results, strategy and prospects. Forward-looking statements involve risks, uncertainties and assumptions. They relate to events and/or depend on circumstances in the future which could cause actual results and outcomes to differ materially from those currently anticipated. No obligation is assumed to update any forward looking statements, whether as a result of new information, future events or otherwise.

8. 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 2013 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The auditor's 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.elektron-technology.com

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John Wilson
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Chief Financial Officer

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