Interim Report 2007/2008

elektron plc

Key Points

- Turnover from continuing operations up 21% to £15.6 million (2006: £13.0 million)
- Operating profits before exceptional items up 8% to £1.3 million (2006: £1.2 million)
- Profit before taxation from continuing activities up 72% to £1.1 million (2006: £0.64 million)
- Earnings per share on continuing operations up 128% to 1.37p (2006: 0.60p)
- Net gearing reduced to 13% from 63% at 31 January 2007
- Transfer of Arcolectric production to China anticipated to produce future annualised cost savings of circa £1.0 million from 1 February 2009
- Expected annualised sales of circa £40 million in 2008 following acquisition of Sifam

Chairman's Statement

Summary
We had a good first half.

The transfer of the Bulgin manufacturing processes to Tunisia is now complete and has produced excellent financial results whilst Arcolectric has continued to suffer as a result of the weakness of the US Dollar and higher metal prices. The division has produced a return of 11.2% on sales of £11.3m.

We have announced to our Arcolectric employees that we will be moving the major parts of the West Molesey manufacturing operation to China by 23 December 2008, the lease break date. This will result in us reducing our UK Arcolectric space requirement from 81,000 square feet to 36,000 sq feet and UK employee numbers by circa 100 staff. The revenue cost of the move, which will involve taking a lease on a new factory in Shenzhen, is expected to be in the region of £1.4 million with a further £0.6 million of capital costs and is anticipated to result in cost savings of circa £1.0 million per annum from 1 February 2009.

The continuing Howle businesses produced a return of 3.4% on sales of £4.3 million. This is well below our target for the future and is largely due to operating with inefficient ageing plant, which is in the process of being replaced. Howle Carbides in particular should have good prospects once new investment has taken place.

We mentioned in our 2007 Annual Report that we saw this year as a period of consolidation involving management and organisational changes. Following the acquisition of Sifam Instruments in August 2007 we have commenced an internal re-organisation to create three divisions within the Group each with a dedicated managing director.

The operations of the Bulgin and Arcolectric brands will be transferred into a new division named **Elektron Components**, which will have annual sales of about £24 million.

Howle Holdings, which was acquired in October last year, has seen its two loss making businesses and freeholds sold, leaving the two profitable businesses for us to expand. Howle Carbides and Titman Tip Tools will form the **Hard Metal Components** division, which will have annual sales of about £8 million.

Sifam Instruments Limited, which was acquired in August 2007, is presently being managed by me until such time as we have recruited a managing director. Sifam designs, manufactures and sells nano-positioning systems, electrical and electronic measuring instruments and moulded control knobs and will form the **Instrumentation** division with annual sales of about £8 million. By making the necessary investment in engineering resources for new product development, we see good opportunities for organic growth in the medium term.

Financial results
Group sales have increased by 21% to £15,630,000.

Group operating profits of £1,267,000, before exceptional items, were 8% ahead of those in the first half of last year. Gross margins were 37% compared with 38% the previous year, the reduction being due to the addition of the lower margin Howle businesses. We expect to bring Howle margins to a satisfactory level in due course as mentioned above.

We incurred exceptional costs of £85,000 in the period relating to aborted acquisition costs and redundancy costs in Titman Tip Tools.

Group profits before taxation from continuing businesses have increased by 72% to £1,108,000.

The taxation credit has arisen from a review of the underlying tax position relating to the fair value exercise carried out on the acquisition of Howle Holdings. This has resulted in a one-off tax credit of £328,000. The underlying tax charge for the period is £252,000 representing a rate of 23%.

At 31 July 2007, net borrowings had decreased to £1,189,000 from £5,038,000, the reduction principally arising from the sale and leaseback of the Howle freehold properties. Gearing at the period end reduced to 13% from 63% at 31 January 2007.

Acquisitions
We continue to investigate acquisition opportunities with a view to accelerating Elektron's growth.

Earnings per share and dividends
The earnings per share from continuing businesses, before exceptional costs, were 1.45p compared with 1.08p in 2006. Basic and diluted earnings per share on continuing businesses after exceptional costs were 1.37p (2006: 0.60p).

The Board has considered the payment of an interim dividend, but in the light of current projects has decided to retain cash. Providing progress continues to be made the Directors intend to consider an increase in the dividend at year-end.

Employees
I should like to thank all of our staff for their enthusiasm and hard work, particularly those at Arcolectric who have continued to work diligently and professionally in the light of the announcement that the factory would be moving the majority of its operations to China.

Outlook
Having established a track record of steadily improving pre-exceptional operating results based mainly on cost reductions we are now looking to accelerate our investment in new product development. We are excited that Elektron now owns a selection of leading brand names, namely Arcolectric, Bulgin, Digitron, Howle Carbides, Sifam, Teco, Titman and Queensgate, all well known and respected in the markets they serve, through which new products will be promoted to achieve organic growth.

Orders received to date, for continuing businesses, are currently up 41% on this time last year and we are well placed to continue progress.

Adrian Girling
Executive Chairman 25 October 2007

Group Income Statement

Unaudited Interim Results to 31 July 2007

	Unaudited Half year to 31 July 2007 £'000	Unaudited Half year to 31 July 2006 £'000	Audited Year to 31 January 2007 £'000
Revenue from continuing operations	**15,630**	12,954	26,010
Cost of sales	**(9,824)**	(8,077)	(16,662)
Gross profit	**5,806**	4,877	9,348
Net operating expenses (including exceptional items)	**(4,624)**	(4,221)	(8,753)
Operating profit before exceptional items	**1,267**	1,173	1,874
Exceptional items	**(85)**	(517)	(1,279)
Operating profit from continuing operations	**1,182**	656	595
Finance income	**31**	23	49
Finance costs	**(105)**	(36)	(131)
Profit before taxation from continuing operations	**1,108**	643	513
Taxation on continuing operations	**76**	(174)	(21)
Profit after taxation from continuing operations	**1,184**	469	492
Loss after taxation from discontinued operations	**(9)**	–	(85)
Profit attributable to shareholders	**1,175**	469	407
Earnings per share – basic	**1.35p**	0.60p	0.50p
– diluted	**1.35p**	0.60p	0.50p
Earnings per share continuing operations			
– basic	**1.37p**	0.60p	0.61p
– diluted	**1.37p**	0.60p	0.61p

Group Balance Sheet

Unaudited Interim Results at 31 July 2007

	Unaudited 31 July 2007 £'000	Unaudited 31 July 2006 £'000	Audited 31 January 2007 £'000
Assets			
Non-current assets			
Property, plant and equipment	**3,136**	2,096	3,683
Deferred tax	**62**	285	–
Total non-current assets	**3,198**	2,381	3,683
Current assets			
Inventories	**5,335**	3,282	4,974
Trade and other receivables	**7,744**	5,188	10,506
Cash and cash equivalents	**1,746**	2,421	858
	14,825	10,891	16,338
Assets held for sale	**1,160**	–	1,253
Total current assets	**15,985**	10,891	17,591
Total assets	**19,183**	13,272	21,274
Equity and liabilities			
Equity attributable to equity holders of the parent			
Called-up share capital	**4,336**	3,916	4,336
Share premium	**244**	244	244
Merger reserve	**1,047**	–	1,047
Capital redemption reserve	**106**	105	106
Other reserves	**57**	59	54
Retained earnings	**3,389**	2,568	2,214
Total equity	**9,179**	6,892	8,001
Non-current liabilities			
Long-term borrowings	**333**	160	286
Long-term provisions	**251**	269	251
Deferred income tax liabilities	**–**	–	63
Total non-current liabilities	**584**	429	600
Current liabilities			
Trade and other payables	**5,026**	3,350	4,609
Short-term borrowings	**2,260**	1,087	5,385
Current portion of long-term borrowings	**342**	288	225
Current tax payable	**566**	644	895
Short-term provisions	**146**	582	500
Total current liabilities	**8,340**	5,951	11,614
Liabilities directly associated with assets held for sale	**1,080**	–	1,059
Total current liabilities	**9,420**	5,951	12,673
Total liabilities	**10,004**	6,380	13,273
Total equity and liabilities	**19,183**	13,272	21,274

Group Cash Flow Statement

Unaudited Interim Results to 31 July 2007

	Unaudited 31 July 2007 £'000	Unaudited 31 July 2006 £'000	Audited 31 January 2007 £'000
Cash flows from operating activities			
Profit before taxation (continuing activities)	**1,108**	643	513
Loss before taxation (discontinued activities)	**(16)**	–	(104)
Profit before taxation	**1,092**	643	409
Adjustments for:			
Depreciation charge	**616**	481	1,019
Interest receivable	**(31)**	(23)	(49)
Interest expense	**147**	36	184
(Profit)/loss on disposal of fixed assets	**(32)**	–	57
Goodwill impairment	**–**	–	(5)
Operating profit before working capital changes	**1,792**	1,137	1,615
(Increase)/decrease in inventories	**(376)**	(15)	113
Decrease/(increase) in trade and other receivables	**3,344**	(626)	(14)
Increase in trade and other payables	**110**	477	17
Decrease in provisions	**(364)**	–	–
Other non-cash movements	**5**	429	364
Cash generated from operations	**4,511**	1,402	2,095
Interest paid	**(147)**	(36)	(184)
Taxation paid	**(85)**	(394)	(457)
Net cash inflow from continuing operations	**4,343**	972	1,553
Net cash outflow from discontinued operations	**(64)**	–	(99)
Net cash inflow from operating activities (total)	**4,279**	972	1,454
Cash flows from investing activities			
Sale of subsidiary operations	**80**	–	100
Acquisition of subsidiaries	**–**	–	(1,655)
Purchase of property, plant and equipment	**(459)**	(419)	(610)
Proceeds of sale of plant and equipment	**33**	–	4
Interest received	**31**	23	49
Net cash used in investing activities	**(315)**	(396)	(2,112)
Cash flows from financing activities			
Purchase of own shares	**–**	(132)	(132)
Movement in long term borrowings	**(146)**	214	(2,224)
Movement in short term borrowings	**(3,067)**	329	2,906
New capital leases	**146**	–	164
Payment of hire purchase and finance liabilities	**(9)**	(280)	(638)
Dividends paid	**–**	–	(274)
Net cash used in financing activities	**(3,076)**	131	(198)
Net increase/(decrease) in cash and cash equivalents	**888**	707	(856)
Cash and cash equivalents at the beginning of period	**858**	1,714	1,714
Cash and cash equivalents at the end of period	**1,746**	2,421	858

Group Statement of Changes in Equity

Unaudited Interim Results to 31 July 2007

	Share Capital £000	Share Premium £000	Merger Reserve £000	Capital Redemption Reserve £000	Other Reserves £000	Translation Reserve £000	Retained Earnings £000	Total £000
At 1 February 2007	4,336	244	1,047	106	73	(19)	2,214	8,001
Transfer from income and expense account	–	–	–	–	–	–	1,175	1,175
Employee share scheme transfer	–	–	–	–	14	–	–	14
Exchange differences	–	–	–	–	–	(11)	–	(11)
At 31 July 2007	**4,336**	**244**	**1,047**	**106**	**87**	**(30)**	**3,389**	**9,179**

Notes to the Unaudited Interim Results to 31 July 2007

1. Accounting Policies

The interim financial information has been prepared on the basis of International Financial Reporting Standards (IFRS). Full details of accounting policies will be included in the Annual Report for the year ending 31 January 2008. These are not expected to be materially different from those set out in the Group's statutory accounts for the year ended 31 January 2007.

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 240 of the Companies Act 1985. The financial information in respect of the year ended 31 January 2007 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 237 of the Companies Act 1985.

Copies of the interim results will be sent to shareholders and 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.

Elektron PLC Melville Court, Spilsby Road, Romford, Essex RM3 8SB Tel: 01708 336308 Fax: 01708 347581