Annual Report 2008

elektron plc

Contents

Year in Brief

- Sales up 34% to £35 million following acquisition of Sifam Instruments Limited
- Operating profit on continuing operations, before exceptional items and negative goodwill, up 14% to £2.14 million *(2007: £1.87 million)*
- Exceptional costs of £1.05 million *(2007: £1.28 million)* incurred mainly in relocating manufacturing off-shore
- Negative goodwill of £1.16 million arising on the purchase of Sifam Instruments Limited
- Profit before taxation from continuing operations up 282% to £1.95 million *(2007: £0.51 million)*
- Proposed final dividend up 12.5% to 0.45p per share
- Basic earnings per share up 452% to 2.76p *(2007: 0.50p)*
- Earnings per share from continuing operations before goodwill, exceptional and discontinued items 2.48p *(2007: 1.73p)*
- Tangible net assets per share up nine-fold over the last 5 years to 11.7p
- Net gearing of 15% at 31 January 2008 *(2007: 70%)*

Chief Executive Officer's Statement

Overview
I am pleased to report continued improvement in the Group's financial results, details of which are given below.

The Group has continued its development and following the purchase of Sifam Instruments Limited in August last year it now consists of three divisions; Elektron Components, Hard Metal Components and Instrumentation.

The acquisition of Sifam has resulted in negative goodwill (i.e. addition to Group net assets) of £1.16 million and in the six months post acquisition Sifam has produced operating profits of £0.07 million. A new managing director has been appointed and annual operating costs reduced by almost £0.4 million, some of which will be reinvested to bolster the engineering team and increase new product development to reverse a sales decline over recent years. Plans are in the process of being formulated for off-shoring manufacture of its traditional products serving mature markets.

2006/7 saw the move of connector production from the UK to our facility in Tunisia and the first half of 2007/8 saw the bedding down of production and the restoration of customer service to better levels than those experienced pre-move. We also started the necessary planning to relocate the remaining UK based switch production to our facilities in China. This process will continue throughout 2008/9 at an estimated remaining expense of £0.8 million.

Hard Metal Components had a reasonable year but cobalt prices and a market slowdown have accelerated the need to look for off-shore cost savings, again with projects currently under way.

The introduction of a new Group IT system is approaching contract stage. We anticipate the project completing towards the end of the next financial year at a total cost of £0.9 million.

Group financials
Turnover on continuing operations increased to £34.9 million (2007: £26.0 million). Gross margin was 35% compared with 36% the previous year.

The operating profit margin of £2.14 million, before exceptional items, was 6.1% compared with 7.2% the previous year and largely reflects the drop in gross margin.

Currency movements resulted in exchange losses of £0.15 million compared with a loss the previous year of £0.22 million.

Profit before taxation from continuing operations was £1.95 million (2007: £0.51 million) after exceptional costs of £1.05 million, loss on disposal of discontinued operations £0.12m and negative goodwill of £1.16 million.

Exceptional costs included £0.77 million redundancy and restructuring costs for transferring switch manufacture to China, £0.14 million restructuring costs in Sifam, £0.07 million restructuring costs in the hard metals division and £0.07 million of abortive acquisition costs.

Net assets of the Group have reached £10.2 million (2007: £8.0 million) with net debt as at 31 January 2008 of £1.55 million compared to £5.60m the previous year. Net gearing has reduced from 70% to 15%.

The Group generated £3.4 million of cash from trading of which £1.4 million was absorbed in working capital increases, £1.1 million was expended in eliminating pension deficits, £0.7 million in payment of restructuring costs and £0.4 million in tax

Chief Executive Officer's Statement

and interest payments leaving a cash outflow from operating activities of £0.2 million.

£7.2 million was raised through the sale and leaseback of freehold properties of which £3 million was used to repay borrowings, £1.9 million used to acquire Sifam Instruments Limited, £0.7 million used to purchase plant and machinery, £0.3 million paid in dividends resulting in an overall increase in cash in the year of £1.1 million.

The tax credit of £0.52 million arises from a combination of factors, the majority of which are one-off and include the utilisation of capital losses not previously recognised as a deferred tax asset and non-taxable negative goodwill arising on consolidation. Stripping out these would give an underlying tax charge for the current year of £0.08 million, which reflects this year's earnings arising principally from off-shore operations.

Earnings per share metrics, after taking account of the effects of IFRS 2 'share-based payments' were:

- Basic of 2.48p and diluted of 2.47p from continuing operations excluding exceptional items and negative goodwill (2007: basic and diluted of 1.73p)
- Basic of 2.76p and diluted of 2.75p (2007: basic and diluted of 0.50p)
- Basic of 2.85p and diluted of 2.83p on continuing operations (2007: basic and diluted of 0.61p)

The Board is proposing a final dividend of 0.45p per share (2007: 0.40p) payable on 5 August 2008 to shareholders on the register at 11 July 2008. This represents an increase of 12.5% and reflects the Board's confidence in the business.

The Board will also look for opportunities to purchase the Company's shares on market subject to funds not being required elsewhere.

Elektron Components Division (Sales £22.9 million, operating profits £2.01 million)

Elektron Components Limited ("ECL") comprises two brands, Bulgin, which operates in the industrial sector selling connectivity and sealed products for harsh environments, and Arcolectric, which offers switching and indicator solutions primarily for the consumer products market.

ECL manufactures nearly 100 million products per annum, for customers in industries ranging from industrial communications, marine and water treatment, to white goods, small consumer appliances, and products used within the food preparation sector.

Its global reach extends to all continents, with operations in Europe, America, Asia and North Africa, and an extensive sales channel network in 125 countries.

The off-shoring of Arcolectric's production to China is well under way and we will be exiting two of the three properties in West Molesey at the lease break date in December this year. We have taken a 15-year lease, with 5-year breaks, on a new property in Shenzhen with 6,500 sq metres of factory space and 2,700 sq metres of dormitory space at a current annual rental of £0.08 million. The lease of the existing China factory comes to an end in March 2010. To accommodate the transfer of production, and to protect the Company's assets, a new wholly owned subsidiary Elektron Components (Shenzhen) has been formed.

Chief Executive Officer's Statement

We reconfigured our US selling organisation and network, to better reflect our business strategy, and we began to realise the positive effects of this activity towards the end of the year.

As fiscal 2007/8 drew to a close, we combined the previously autonomous business units, of Arcolectric and Bulgin Components, into one legal entity. This structure better reflects the interdependence of the brands' manufacturing functions, and there are benefits from leveraging the selling channels across both brands, improving our penetration in certain markets.

This initiative included the formation of a new management team, and we drew experienced members from the existing businesses enhanced with externally sourced talent.

The ECL performance reflected both the benefits of a complete year of off-shore manufacture and the disadvantage of increasing commodity prices. Sales revenues of £22.9 million were down from £24.1 million the previous year, the weakness being in switches as the white-goods market slowed. Gross margins were up at 36.9% compared with 36.3% in the prior year with connector margins improving by 7% but switch margins declining by 5%.

2008/9 is proving to be a challenging year. Approximately 30% of our business is directly related to the consumer market and we are experiencing customer caution in the placing of previously enjoyed forward schedules. The volatile raw materials market, and in particular mounting copper prices, will continue to squeeze our margins. We are having some success in offsetting these pressures through pricing adjustments, productivity gains, and a continuing migration to low cost economies.

However, the instability in commodity prices and the time lag in achieving offsets, may adversely affect operating margins for our traditional products.

Achievements worthy of note are:

- Our strengthened field applications resources in the US have resulted in a number of exciting opportunities to partner blue chip OEMs in the development of value added solutions.
- We have appointed new distributors in Brazil and Mexico.
- Our Western and Eastern European sales resources have been reinforced, serving to better leverage the established distributor and agency network, again with the renewed focus on developing partnerships with large OEMs delivering innovative solutions with enabling technologies.
- We are introducing new concepts for energy efficient products for the consumer appliance sector, including a new patented concept for fridge and cabinet lighting, new wireless products for the connectivity market harnessing the established Bluetooth standards for the industrial sector, and have developed concepts for the emerging alternative and renewable energy markets. We are also working to exploit our expertise in harsh environment applications and the intrinsic safety sector, where margins are highly attractive.
- We are continuing to leverage our low cost manufacturing facilities, with the relocation of the remaining UK based Arcolectric production to a brand new facility in China. This new site provides us with sufficient capacity to continue to off-shore additional production as it is acquired by the Group. We are also in the process of establishing robust automation capability within the China

Chief Executive Officer's Statement

plant, which enables us to make further productivity gains. This, coupled with the strengthening of our local engineering and skills base, to complement our established selling resources, enhances our ability to compete in a larger section of the indigenous Asian market place.

Hard Metals Division (Sales £8.3 million, operating profits £0.45 million)

In a competitive market the division achieved 9.5% sales growth winning new customers as well as new business from existing customers. Productivity improvements enabled us to achieve this growth without additional personnel.

In spite of the relative strength of the pound sterling we increased selling prices where possible partially offsetting major material price increases. Consequently gross margins for the year remained stable at 31%.

Through investment in new machinery we are achieving steady efficiency improvements, bringing sub-contract work back in-house and winning new business from high added value components that we would previously have not been able to manufacture cost effectively. For instance, with new CNC grinding capability we are taking orders for high precision thread grinding. We have also automated the surface grinding of circular knives allowing us to penetrate this market.

Orders in the first quarter of the new year are significantly below last year as a result of the downturn in the markets we serve. In addition we have seen an unprecedented rise in the cost of cobalt, now twice the price it was one year ago. We are forced to increase the selling prices of components with high cobalt content at the risk of losing this low margin business.

We are however confident that we have not lost customers to date and helped by the current strength of the Euro we are working hard to win more European business. We have taken quick action to reduce costs whilst striving to maintain the key skills underpinning our future growth plans.

For the medium and longer term we continue our strategy to invest in the machinery to enable us to win more "value added" business. Customers continue to demand greater dimensional accuracy in sintered products and more complexity in ground products. We focus on circular ground products for the oil, gas and other industries where precision quality and speed of delivery are paramount. This strategy will reduce our sensitivity to material price fluctuations and extend our move into niche markets where aggressive pricing is not the major element of supply.

In parallel we are evaluating the feasibility of moving the manufacture of less complex components off-shore.

Instrumentation Division (Sales £3.7m, operating profits £0.07 million)

Sifam Instruments Limited consists of four product areas being nano-positioning instruments ("Queensgate"), electronic measuring instruments ("Digitron"), meters and precision multi-shot mouldings.

From acquisition in August 2007 to year-end in January 2008 the division returned satisfactory operating profits (before exceptional costs) of £0.07 million on sales of £3.7 million with a gross margin of 32%.

Chief Executive Officer's Statement

The progress of the business is dependent upon the design and development of new instrumentation products and cost savings in the traditional areas of meters and mouldings.

First quarter trading in the year beginning February 2008 was satisfactory. The outlook for the rest of the year is solid in some product areas such as Digitron, but weaker in others. The Queensgate business is very dependent on the semiconductor industry and in particular hard disk drive manufacturers all of which are currently experiencing a down turn.

In the short term we will be developing new temperature monitoring and control technology and new pressure measurement devices which will produce sales and margin improvements next year. Beyond that we will be looking to launch products complementary to our current range, notably in the areas of gas detection and moisture measurement. This should lead to more substantial growth in 2009/10 and beyond.

In order to improve profitability it was felt prudent to undertake a cost reduction exercise which has led to a headcount reduction of 14 effective 31 May 2008. This will give savings of £0.17 million in the current year and £0.28 million in a full year.

Looking ahead we plan to improve competitiveness by following the dual strategy of moving manufacture of certain products off-shore and developing in house new higher value added technology. Off-shore manufacture of our range of control knobs will allow us to substantially improve margins on current business and enable us to compete for new contracts in market segments previously not accessible to us. To a lesser extent this principle applies across much of the rest of our product range.

Group strategy and outlook
Our approach is three pronged:

- Growing the Group both organically by developing new products and markets as well as by acquisition.
- Improving margins by reducing costs and increasing prices where possible.
- Optimising organisational structure by ensuring that appropriate management, engineering, IT and financial resources are in place.

It is worthwhile restating what was said in our last annual report:

"The last few years have been exceptionally profitable for manufacturers of all types and your Board believes that this state of affairs cannot last forever. A harsher business environment will however offer more opportunities for acquisitive companies as businesses get into difficulties. Elektron is a low cost manufacturer and is conservatively financed and the Board believes that it is well placed to take advantage of such opportunities as they arise."

We managed a healthy increase in earnings per share in the year just ended but those words remain pertinent today in an even harsher business climate. In the past three months we have seen a downturn in orders across the Group. Much of this is as a result of destocking by our customers who are becoming more cautious. If this downturn is sustained however, we would expect to see a significant reduction in our near term profitability whilst continuing to produce operating profits. We shall keep the market informed as appropriate.

The Board remains confident that it is following the correct strategy and relishes the challenges ahead.

Adrian Girling
Chief Executive Officer

Directors and Professional Advisers

Directors	**Keith A. Daley,** M.A. Cantab *Non-Executive Chairman* aged 53, trained as a Corporate banker. For the past 20 years he has been an active professional investor specialising in the shares of small quoted companies. He has owned a number of small businesses and also invests in the unquoted sector. He has been a shareholder in Elektron since 1996. **Adrian C. N. Girling,** M.A. Oxon *Chief Executive Officer* aged 56, is a Chartered Engineer and Fellow of the Institute of Electrical Engineers. He joined the Company in January 2003 having previously held a senior position at Spirent Plc. **Christopher M. Leigh,** B.A. (Hons)., F.C.A., *Group Finance Director* aged 48, is a Chartered Accountant with 24 years post qualification experience. He trained with a large city practice and spent time in industry carrying out projects in the UK and abroad before joining Elektron in 1990. **Keith J. Roy,** B.Sc. (Hons)., M.Sc., *Non-executive Director* aged 58, is the Chief Executive of the Photonics and Gas Technology Division and a main board director of Halma plc, a FTSE 250 global manufacturing company with sales of £395 million and profits of almost £73 million. In his early career, he established a number of technical companies that were successfully sold. Whilst at Halma, he has held executive responsibility in the management of companies throughout the world with particular experience in innovation, new product development, global sales and marketing.
Company Secretary	**Christopher M. Leigh,** B.A. (Hons)., F.C.A.
Registered Office	Melville Court Spilsby Road Romford Essex RM3 8SB
Registered in England	No. 448274
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0GA
Nominated Adviser & Nominated Broker	FinnCap 4 Coleman Street London EC2R 5TA
Auditors	Bright Grahame Murray Chartered Accountants and Registered Auditors 131 Edgware Road London W2 2AP
Bankers	HSBC Bank plc 70 Pall Mall London SW1Y 5EZ
Solicitors	Wollastons Brierly Place New London Road Chelmsford Essex CM2 0AP

Report of the Directors

The Directors present their Annual Report on the affairs of the Group together with the audited financial statements for the year ended 31 January 2008.

Activity
The principal activity of the Group is the design and manufacture of engineered components. The principal operating subsidiaries are listed in Note 13.

Business review
A review of the Group's trading operations is contained in the Chief Executive Officer's Statement on pages 2 to 6. We are required by the Companies Act 1985 to include a business review in the Directors' Report and describe the principal risks and uncertainties facing the Group. Analysis using financial key performance indicators has to be shown. We produce a wide variety of daily key figures for all of our businesses that enable us to identify performance against budget and the previous year. Other key performance indicators are shown below:

	2008	2007
Gross profit margin The ratio of gross profit to sales expressed as a percentage	**34.8%**	35.9%
Net operating profit % of sales The ratio of net operating profit before exceptional items, negative goodwill and discontinued operations, to the total of sales invoiced to customers, excluding value added tax, expressed as a percentage	**6.1%**	7.2%
Interest cover The ratio of profit before finance costs from continuing operations to net interest payable on borrowings	**12**	7
Earnings per share – pence The profit after tax but before exceptional and discontinued items and negative goodwill divided by the weighted average number of ordinary shares in issue during the year	**2.48p**	1.73p
Dividend cover The ratio of earnings per share on continuing operations before exceptional items, negative goodwill and loss on disposal of businesses to dividends per share expressed as a multiple	**5.5**	4.3
Gearing The ratio of total borrowings less cash to shareholders' funds expressed as a percentage	**15%**	70%
Tangible net assets per share Tangible net assets divided by the number of ordinary shares in issue at the balance sheet date expressed in pence per share	**11.7p**	9.2p

Principal risk and uncertainties
The management of the business and the nature of the Group's strategy are subject to a number of risks and uncertainties. The Directors have set out below the principal risks facing the business.

Competition
The Group sees increasing levels of competition both from suppliers based in low cost countries, and traditional European suppliers struggling to maintain market share by reducing prices. We counter this by continuing to develop innovative products for niche applications with higher margins and by manufacturing in lower cost locations.

Report of the Directors

Commodity prices
A significant amount of the Group's purchases are plastic moulding powders, metal parts and rare metal powders. Consequently movements in oil, copper, silver, tungsten and cobalt market prices can lead to significant movements in the gross margin. Whilst it is difficult to pass these costs on to customers in the short term, we are confident that our product designs use less than, or at least no more than the same amount of these costly materials in product offerings of our competitors which compete directly.

Fluctuations in currency exchange rates
A significant amount of the Group's sales are in US Dollars and Euros. We are therefore exposed to foreign currency fluctuations. The Group manages its foreign exchange risk by purchasing materials in matching currencies where possible in order to partially offset this exposure. We do not enter into forward foreign exchange contracts and other derivatives/financial instruments since this would only smooth the short term fluctuations. The longer term strategy to reduce currency risks is to incur greater proportions of Group costs in currencies linked to our sales.

Control of overseas operations
In order to achieve competitively priced products the Group has manufacturing facilities in Tunisia and China. Risks and uncertainties of this strategy include management issues at the factories, the possibility of changes in import duties, taxes and shipping delays. We manage these risks by employing suitably experienced local staff and a UK based team that work closely with the factories. If necessary, the majority of products manufactured at one location could be moved to another location.

Business Interruption Insurance
As the Group transfers manufacturing to its facilities in China and Tunisia business interruption insurance becomes more important. At present, cover is provided in China mainly via the UK insurance market. In Tunisia cover is arranged through a combination of the UK and Tunisian insurance markets. The UK cover for Tunisia is reduced as a consequence of local infrastructure limitations. Discussions are ongoing to increase the amount of local cover in Tunisia in conjunction with the compilation of business recovery plans in the event of a catastrophe occurring.

Quality
The components supplied by the Group are frequently critical to the operation of customers' equipment, where consequential losses due to component malfunction may lead to customer costs significantly in excess of the component value. The Group relies on robust terms and conditions excluding consequential losses and rapid response to customer complaints to maintain good working relationships.

Skills shortages
It is becoming increasingly difficult to find the necessary skills to maintain manufacturing in the UK. Coupled with the continuous improvement in skill levels in offshore countries where we operate, the risks associated with transfer of manufacturing offshore are correspondingly reduced.

IT Systems
As the Group grows it becomes more complex to manage efficiently with the variety of legacy IT systems. The Group has commenced the process of upgrading to modern systems which should lead to efficiency improvements.

Energy prices
The continuous increases in energy prices impact both the gross margins and operating expenses. Our competitors are also affected by these rising costs.

Results and dividends
The profit for the year after taxation was £2,396,000 *(2007: £407,000)* and the Directors are recommending the payment of a final dividend of 0.45p per share *(2007: 0.40p per share).*

Research and development
The Board considers that research and development continues to play a vital role in maintaining and increasing the Group's competitive position in the market. Details are set out in Note 4 to the financial statements.

Report of the Directors

Directors and their interests

The Directors at 31 January 2008 together with their interests in the Company's Ordinary shares of 5p each were:

	At 31 January 2008	At 1 February 2007
Beneficial interests		
K.A. Daley	**2,600,000**	2,460,000
A.C.N. Girling	**351,562**	351,562
C.M. Leigh	**84,000**	84,000

Mr K.J. Roy was appointed a Non-executive Director on 9 June 2008.

Executive share option schemes

On 17 January 2001 the shareholders, in General Meeting, approved the adoption of an Executive Share Option Scheme.

Mr C.M. Leigh was granted the following options to acquire Ordinary shares of 5p each at an adjusted price of 15.08p.

26 February 2001 – 500,000
1 October 2004 – 250,000

Mr A.C.N. Girling was granted options to purchase 1,000,000 Ordinary shares of 5p each at 15.08p per share on 1 April 2004.

These options are subject to performance criteria and are exercisable after three years but before ten years from the date of granting.

The middle market price of the Ordinary shares at 31 January 2008 was 16.75p per share and the range during the year was 15p to 20p per share.

Share capital

Details of share capital are given in Note 17 to the financial statements.

Charitable and political donations

The Group made no political contributions or charitable donations during the year.

Supplier payment policy

The Group applies a policy of agreeing the terms of payment as part of the commercial arrangement negotiated with suppliers. It is Group policy that payments to suppliers are made in accordance with those terms, provided that suppliers also comply with all relevant terms and conditions. The average creditor days in the year for the Group were 53 days and for the Company were nil.

Employees

All employees receive equal opportunities for training and career development. The sole criterion for selection and promotion is the individual's suitability for the position of employment offered. The Group supports the employment of disabled persons wherever appropriate. Each individual operating Company within the Group operates its own communication and consultative programmes relevant to its own particular workforce.

Corporate governance

Whilst there is currently no requirement for AIM companies to comply with current corporate governance guidelines, the Board believes that it is appropriate to comply with those provisions in-so-far as they are appropriate for a company of this size.

Directors

(i) *The Board*

The Board consists of a Non-executive Chairman, a Chief Executive Officer, a Finance Director and a Non-executive Director and their biographies appear on page 7. These indicate the level and range of business experience which, the Board believes, enables it to provide clear and effective leadership of the Company.

Report of the Directors

The Board meets at least 10 times each year and more frequently where business needs require. The Board has a schedule of matters reserved to it for decision and the requirement for Board approval on those matters is known to senior management within the Group. This includes subjects such as material capital and revenue commitments, business acquisitions and disposals and appointments to the Boards of subsidiary companies.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. In addition, each Director has access to the services of the Company Secretary. The Secretary is charged by the Board with ensuring that all relevant regulations are complied with.

(ii) *Chairman and Chief Executive*

The differing roles of Chairman and Chief Executive are acknowledged by the Board and in April 2008 it was announced that these roles would be split.

(iii) *Remuneration and Audit Committees*

Mr K. A. Daley, as Non-Executive Chairman, chairs the audit committee and Mr K. J. Roy chairs the remuneration committee in succession to Mr K. A. Daley. Board remuneration is recommended by Mr K. J. Roy and is agreed by the Board excluding the Director whose pay is under review.

(iv) *Supply of Information*

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information.

The agenda for regular Board Meetings includes a Chief Executive Officer's report and a Finance Director's report together with documents regarding specific matters.

(v) *Appointments to the Board*

The Board does not consider it appropriate to appoint a nomination committee given the Board is small in number. It is the Board's policy to encourage each member to meet individually and collectively with prospective Directors.

(vi) *Re-appointment*

Any Director appointed during the year is required, in accordance with the Company's articles of association, to retire and seek appointment by shareholders at the next annual general meeting. The articles also require that one third, but not more than one third, of the Directors (excluding the Chief Executive Officer) retire by rotation each year and seek re-appointment at the annual general meeting. The Directors required to retire will be those who have been longest in office since their last appointment or re-appointment and the date for determination of the number of Directors is not earlier than 28 days prior to the date of the AGM notice.

Directors' remuneration

(i) *Executive remuneration*

Details of Directors' remuneration are contained in Note 8 of the financial statements.

Communication with shareholders

(i) *Dialogue*

The Company places a great deal of importance on constructive communication with its shareholders.

(ii) *Use of the AGM*

All shareholders have the opportunity to put questions at the Company's Annual General Meeting. In view of the low number of attendees at general meetings the Board does not propose making formal business presentations but instead will allow time for informal discussion after the conclusion of formal proceedings.

Report of the Directors

Accountability and audit

(i) *Internal financial control*

The Board of Directors has overall responsibility for the Group's system of internal financial control, which is designed to provide reasonable, but not absolute, assurance against material mis-statement or loss.

The key procedures that are in place are:

- a comprehensive budgeting system including reviews at operating unit level and formal reviews and approvals of the annual budget by the Directors;
- monitoring of actual results and comparison to budget for each operating unit on a monthly basis;
- a clearly defined organisation structure within which individual responsibilities are identified and can be monitored;
- defined procedures for the appraisal, review and authorisation of capital and major revenue and development expenditure.

(ii) *Financial reporting*

It is the Board's responsibility to always present a balanced assessment of the Group's position and prospects. The respective responsibilities of the Directors and the Auditors in connection with these financial statements are explained on pages 13, 14 and 40. The Directors' report on the business as a going concern is given below.

Going concern

After making due enquiries, the Directors formed a judgement when approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Post balance sheet events

Details of post balance sheet events are given in note 29 of the Notes to the Financial Statements.

Auditors

Bright Grahame Murray have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The notice of the Annual General Meeting is on page 47 and includes four resolutions relating to special business that allow for:-

- the Company to use electronic communications to send information to members
- the issue of up to £5,721,000 of ordinary shares for non-cash consideration
- the issue of up to 20% of the issued ordinary shares without pre-emption rights
- the purchase of up to 14.99% of the Group's issued ordinary shares on-market.

These resolutions will assist the Board in pursuing its stated objectives of acquiring complementary businesses as well as enabling it to potentially increase earnings per share should the share price not reflect the underlying value of the business. The authority to issue up to 20% of the issued ordinary shares without pre-emption rights is relevant to the post balance sheet events described in note 29 of the Notes to the Financial Statements.

By order and on behalf of the Board

C. M. Leigh
Company Secretary

26 June 2008

Melville Court
Spilsby Road
Romford
Essex RM3 8SB

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Report and the Group and Parent financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare the Group and Parent financial statements for each financial year. The Directors are required by the IAS Regulations to prepare the Group financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- select and apply appropriate accounting policies;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departure disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the Parent Company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report – Group

To the Members of Elektron Plc

We have audited the Group financial statements of Elektron Plc for the year ended 31 January 2008 which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense, and the related notes. These Group financial statements have been prepared on the basis of the accounting policies set out therein.

We have reported separately on the individual Parent Company financial statements of Elektron Plc for the year ended 31 January 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the Group financial statements. In addition, we report to you if, in our opinion, the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions with the Group is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. This other information comprises only the Report of the Directors and the Chief Executive Officer's Statement. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion the Group's financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Group as at 31 January 2008 and of the profit of the Group for the year then ended, the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and the information given in the Directors' Report is consistent with the Group financial statements.

Bright Grahame Murray
Chartered Accountants and Registered Auditors

131 Edgware Road
London W2 2AP

26 June 2008

Group Income Statement

Year ended 31 January 2008

	Notes	2008 £'000	2007 £'000
Revenue from continuing operations	2	**34,908**	26,010
Cost of sales	3	**(22,749)**	(16,662)
Gross profit		**12,159**	9,348
Net operating expenses (including exceptional items and negative goodwill)	3	**(9,909)**	(8,753)
Operating profit – continuing operations	4	**2,135**	1,874
– negative goodwill	27a	**1,163**	–
– exceptional items	3	**(1,048)**	(1,279)
Operating profit from continuing operations		**2,250**	595
Loss on disposal of discontinued operations	27	**(123)**	–
Profit before finance costs from continuing operations		**2,127**	595
Finance income		**74**	49
Finance costs	5	**(252)**	(131)
Profit before taxation from continuing operations		**1,949**	513
Taxation on continuing operations	9	**520**	(21)
Profit after taxation from continuing operations		**2,469**	492
Loss after taxation from discontinued operations	27b	**(73)**	(85)
Profit attributable to equity shareholders	18	**2,396**	407
Earnings per share – basic	11	**2.76p**	0.50p
– diluted	11	**2.75p**	0.50p
Earnings per share continuing operations – basic	11	**2.85p**	0.61p
– diluted	11	**2.83p**	0.61p

Group Statement of Recognised Income and Expense

Year ended 31 January 2008

	2008 £'000	2007 £'000
Profit attributable to equity shareholders	**2,396**	407
Currency translation differences on foreign currency net investments	**71**	(61)
Actuarial gain on retirement benefit obligations	**41**	–
Total recognised income for the financial year attributable to equity shareholders	**2,508**	346

The notes on pages 18 to 39 are an integral part of these consolidated financial statements.

Group Balance Sheet

As at 31 January 2008

Assets	Notes	2008 £'000	2007 £'000
Non-current assets			
Property, plant and equipment	12	**3,875**	3,683
Deferred tax	14	**354**	–
		4,229	3,683
Current assets			
Inventories	15	**6,617**	4,974
Trade and other receivables	16	**7,679**	10,506
Cash and cash equivalents		**1,987**	858
		16,283	16,338
Non-current assets held for sale		**–**	1,253
Total current assets		**16,283**	17,591
Total assets		**20,512**	21,274
Equity and liabilities			
Equity attributable to equity holders of the parent			
Called-up share capital	17	**4,336**	4,336
Share premium	18	**244**	244
Merger reserve	18	**1,047**	1,047
Capital redemption reserve	18	**106**	106
Other reserves	18	**136**	54
Retained earnings	18	**4,304**	2,214
Total equity		**10,173**	8,001
Non-current liabilities			
Long-term borrowings	19	**471**	286
Deferred tax	14	**116**	63
Long-term provisions	20	**242**	251
Total non-current liabilities		**829**	600
Current liabilities			
Trade and other payables	21	**5,089**	4,609
Short-term borrowings	19	**2,783**	5,385
Current portion of long-term borrowings	19	**283**	225
Current tax payable		**526**	895
Short-term provisions	20	**829**	500
		9,510	11,614
Liabilities associated with non-current assets held for sale		**–**	1,059
Total current liabilities		**9,510**	12,673
Total liabilities		**10,339**	13,273
Total equity and liabilities		**20,512**	21,274

The financial statements were approved by the Board of Directors on 26 June 2008 and were signed on its behalf by:

A.C.N. Girling
C.M. Leigh
Directors

The notes on pages 18 to 39 are an integral part of these financial statements.

Group Cash Flow Statement

Year ended 31 January 2008

	Notes	2008 £'000	2007 £'000
Net cash (outflow)/inflow from operating activities	6	**(219)**	1,454
Cash flows from investing activities			
Business disposals	27b	**68**	100
Acquisition of subsidiaries, net of cash acquired	27a	**(1,880)**	(1,655)
Purchase of property, plant and equipment		**(1,023)**	(610)
Proceeds of sale of property, plant and equipment		**7,158**	4
Interest received		**74**	49
Net cash generated from/(used in) investing activities		**4,397**	(2,112)
Cash flows from financing activities			
Movement in long term borrowings		**(146)**	(2,224)
Movement in short term borrowings		**(2,814)**	2,906
New capital leases		**302**	164
Payment of hire purchase and finance liabilities		**(44)**	(638)
Dividends paid		**(347)**	(274)
Purchase of own shares		**–**	(132)
Net cash used in financing activities		**(3,049)**	(198)
Net increase/(decrease) in cash and cash equivalents		**1,129**	(856)
Cash and cash equivalents at the beginning of period		**858**	1,714
Cash and cash equivalents at the end of period		**1,987**	858

The notes on pages 18 to 39 are an integral part of these consolidated financial statements.

Notes to the Group Financial Statements

General Information
Elektron plc is a limited liability company incorporated and domiciled in the UK. The address of its registered office is Melville Court, Spilsby Road, Romford, Essex, RM3 8SB. The nature of the Group's operations and its principal activities are set out in note 13 and in the Chief Executive Officer's Statement on pages 2 to 6.

These financial statements are presented in £ sterling, the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the accounting policies set out in note 1.

1. Summary of significant accounting policies

The particular accounting policies adopted by the Directors in the preparation of these consolidated financial statements are described below:

(a) Basis of preparation

The consolidated financial statements of Elektron plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 1985 applicable to Companies reporting under IFRS.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The principal accounting policies adopted are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

In the current year, the Group has adopted IFRS 7, Financial Instruments: Disclosures and the related amendment to IAS 1, Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are:

Deferred income tax (note 14)

Stock provisions (note 15)

Provisions (note 20)

Fair value of assets on business combinations (note 27)

The business segments for which information has been included in these accounts are different from those disclosed in prior years. The new disclosures for business segments reflect the manner in which the business is currently managed by the Board of Directors. Prior year comparatives have been adjusted accordingly.

A number of new IFRS standards and IFRIC interpretations have been issued which are not yet effective for the year ended 31 January 2008 and which have not been adopted early.

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the Group's reported results.

(b) Consolidation

The consolidated financial statements incorporate the financial statements of Elektron Plc, and all subsidiary undertakings drawn up to 31 January each year. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefit from their activities. The results of businesses acquired during the year are included from the effective date of acquisition. The results of businesses discontinued during the year are included until the date of disposal. Details are given in note 27. Business combinations are accounted for using the purchase method. Balances between Group companies are eliminated and no profit is taken on intra-group sales.

(c) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents any excess of cost of the acquired entity over the Group's interest in the fair value of the entity's identifiable assets and liabilities acquired and is capitalised as a separate item. Goodwill is recognised as an intangible asset.

Under the business combination exemption of IFRS I, goodwill previously capitalised or written off to reserves under UK GAAP is not recycled to the income statement on calculating a gain or loss on disposal.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

An impairment loss is recognised to the extent that an asset's carrying value exceeds its recoverable amount, which represents the higher of the asset's fair value less costs to sell and its value in use. The recoverable amount of goodwill is determined by reference to the discounted future cash flows expected to be derived from the cash generating unit to which it is allocated.

Impairment losses are recognised in the income statement.

Negative goodwill, representing the amount by which the net fair value of the assets and liabilities of an acquired business exceeds the acquisition cost is, in accordance with IFRS 3, recognised in the Income Statement in the year of acquisition.

Notes to the Group Financial Statements

1. Accounting policies *(continued)*

(d) Development costs

All costs incurred on research and development are written off to the income statement as incurred, unless such expenditure relates to a clearly defined project where the outcome both technically and commercially can be assessed with reasonable certainty.

Deferred costs are written off to the income statement over a period of up to three years commencing from the date of commercial production of the products concerned.

(e) Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated on the cost or valuation of each tangible fixed asset individually on a straight line basis and is designed to write off the costs of the assets less any residual value over their estimated useful lives. The estimated useful lives are:-

Plant, equipment and tools	3 – 15 years
Motor vehicles	4 years
Fixtures and fittings	8 – 16 years
Leasehold improvements	Term of the lease

The Group's policy is to write off the book value of each tangible fixed asset evenly over its estimated remaining life. Reviews are made periodically of the estimated remaining lives of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. The carrying value is reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable.

(f) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises all direct expenditure and, where appropriate, production overheads based on the normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks. Cost is calculated using the FIFO method. Net realisable value represents the estimated selling price less all estimated costs to completion.

(g) Employee benefits

Pensions to employees are provided through defined contribution plans and were provided through one defined benefit scheme.

A defined contribution plan is a pension plan under which the Group pays fixed contributions to an independent entity. The Group has no legal obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

Certain employees were members of The Richard Lloyd Group Pension Scheme. In December 1993 the scheme was made paid up meaning that benefits accrue to that date but not thereafter.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependant on one or more factors such as age, years of service and salary.

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates that have terms to maturity approximating to the terms of the related liability.

Actuarial gains and losses are recognised immediately through the statement of recognised income and expense. The net deficit is presented with other provisions on the balance sheet, unless it is a liability directly associated within assets held for sale. As described in note 27b the Group disposed of the entire share capital of Richard Lloyd Limited, the sponsoring employer of the Richard Lloyd Group Pension Scheme.

(h) Share-based employee remuneration

In accordance with IFRS 2 'Share-based payment', the Group reflects the economic cost of awarding shares and share options to employees by recording an expense in the income statement equal to the fair value of the benefit awarded, fair value being estimated by an independent third party using a proprietary binomial probability valuation model. The expense is recognised in the income statement over the vesting period of the award.

1. Accounting policies *(continued)*

(i) Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if they bear substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable acquired assets. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs. Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability.

All other leases are treated as operating leases. Payment on operating lease agreements is recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(j) Financial liabilities/assets

The Group's financial liabilities are overdrafts, invoice discounting facilities, trade and other payables and finance leasing liabilities. They are included in the balance sheet line items 'Short term borrowings and overdrafts', 'Long term financial liabilities' and 'Trade and other payables'.

Financial liabilities are recognised when the Group becomes party to the contractual arrangements of the instrument. All interest related charges are recognised as an expense in 'finance cost' in the income statement.

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

Trade payables are stated at their amortised cost.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides goods directly to a debtor. Receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(k) Equity instruments

Share capital is determined using the nominal value of shares that have been issued. Equity settled share-based employee remuneration is credited to other reserves until the related share options are exercised.

(l) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and bank deposits available at less than 24 hours' notice. Bank overdrafts and invoice discounting advances are presented as current liabilities to the extent that there is no right of offset with cash balances.

(m) Accounting for taxes

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Where an item of income or expense is recognised in the income statement, any related tax generated is recognised as a component of tax expense in the income statement. Where an item is recognised directly to equity and presented within the consolidated statement of recognised income and expense, any related tax generated is treated similarly.

(n) Deferred taxation

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are generally recognised on all taxable temporary differences. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. The carrying value of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

1. Accounting policies *(continued)*

(o) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group manufactures and sells a range of engineered components to industrial markets. Sales of goods are recognised when a Group entity has delivered products to the customer, the manufacturer has full discretion over the use of the components, and there is no unfulfilled obligation that could affect the manufacturer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred, and either the products have been accepted in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(p) Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

(q) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(r) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Notes to the Group Financial Statements

1. Accounting policies *(continued)*

(s) Financial risk management

The Group's multinational operations and debt financing expose it to a variety of financial risks. In the course of its business, the Group is exposed to foreign currency risk, interest rate risk, liquidity risk, and credit risk. Financial risk management is an integral part of the way the Group is managed. Financial risk management policies are set by the Board of Directors.

The Group does not hold or use derivative financial instruments.

i) Foreign currency risk

Foreign currency risk arises both where sale or purchase transactions are undertaken in currencies other than the respective functional currencies of Group companies (transactional exposures) and where the results of overseas companies are consolidated into the Group's reporting currency of £ sterling (translational exposures). The Group has overseas operations which record their results in different local functional currencies. In countries where the Group does not have operations, it invariably has some customers or suppliers that transact in a foreign currency. The Group is therefore exposed to the changes in foreign currency exchange rates between a number of different currencies but the Group's primary exposures relate to the US$, and, to the euro.

It is Group policy not to hedge its exposure using financial instruments, but to mitigate exposure by natural hedges.

The Group's translational exposures to foreign currency risks can relate both to the income statement and net assets of overseas subsidiaries. The Group's policy is not to hedge the translational exposure that arises on consolidation of the income statements of overseas subsidiaries. The Group finances overseas company investments partly through the use of foreign currency borrowings in order to provide a natural hedge of foreign currency risk arising on translation of the Group's net investment.

ii) Interest rate risk

Interest rate risk comprises the interest cash flow risk that results from borrowing at variable rates are not hedged.

iii) Liquidity risk

Liquidity risk represents the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group manages this risk by maintaining adequate committed lines of funding. The facilities committed to the Group as at 31 January 2008 are set out in Note 25.

iv) Credit risk

Credit risk arises because a counterparty may fail to perform its obligations. The Group is exposed to credit risk on financial assets such as cash balances, trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts recognised in the balance sheet are net of appropriate allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Trade receivables are subject to credit limits, and control and approval procedures in the operating companies. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables.

Credit risk associated with cash balances is managed by transacting with financial institutions with high quality credit ratings. Accordingly the Group's associated credit risk is limited. The Group has no significant concentration of credit risk.

The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Group balance sheet.

(t) Capital management

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Details of share based payments are disclosed in note 17.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

From time to time the Group purchases its own shares in the market; the timing of these purchases depends on market prices. Buy and sell decisions are made on a specific transaction basis by the Board.

There were no changes to the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Group Financial Statements

2. Segmental reporting

i) The Group has three operating divisions electromechanical components, hard metal components and the newly acquired instrumentation activity (see note 27) which form the primary segment information.

2008	Electro mechanical components £'000	Hard metal components £'000	Instru-mentation £'000	Unallocated corporate expenses £'000	Total £'000
Revenue	**22,880**	**8,333**	**3,695**	**–**	**34,908**
Operating profit/(loss)	**2,012**	**452**	**74**	**(403)**	**2,135**
Negative goodwill	**–**	**–**	**–**	**1,163**	**1,163**
Exceptional costs	**(770)**	**(70)**	**(135)**	**(73)**	**(1,048)**
Loss on disposal of discontinued operations	**–**	**(123)**	**–**	**–**	**(123)**
Net finance income/(expense)	**(92)**	**(120)**	**4**	**30**	**(178)**
Profit before taxation	**1,150**	**139**	**(57)**	**717**	**1,949**
Taxation					**520**
Profit after taxation					**2,469**
Segment assets	**10,581**	**5,624**	**3,575**	**732**	**20,512**
Segment liabilities	**5,542**	**3,188**	**920**	**689**	**10,339**
Depreciation	**727**	**395**	**55**	**18**	**1,195**
Capital expenditure	**442**	**535**	**46**	**–**	**1,023**
2007 (restated)					
Revenue	24,073	1,937	–	–	26,010
Operating profit/(loss)	2,165	168	–	(459)	1,874
Exceptional costs	(1,240)	–	–	(39)	(1,279)
Net finance income/(expense)	(58)	(58)	–	34	(82)
Profit before taxation	867	110	–	(464)	513
Taxation					(21)
Profit after taxation					492
Segment assets	13,296	6,499	–	226	20,021
Segment liabilities	4,639	7,205	–	370	12,214
Depreciation	845	157	–	17	1,019
Capital expenditure	579	31	–	–	610

ii) The Group results based on geographical areas which form the secondary segment information are as follows:

2008	United Kingdom £'000	Rest of Europe £'000	North America £'000	Rest of World £'000	Total £'000
Turnover	**15,887**	**9,968**	**4,006**	**5,047**	**34,908**
Assets	**19,105**	**99**	**726**	**582**	**20,512**
Capital expenditure	**884**	**–**	**2**	**137**	**1,023**
2007					
Turnover	9,666	8,305	3,739	4,300	26,010
Assets	18,655	–	709	657	20,021
Capital expenditure	423	–	2	185	610

Total Group sales revenue of £35,952,000 comprised £34,908,000 from continuing operations and £1,044,000 from discontinued operations.The revenue from discontinued operations relates to hard metal components sold in the United Kingdom.

Notes to the Group Financial Statements

3. Cost of sales and net operating expenses

	2008		2007	
	Continuing	**Discontinued**	Continuing	Discontinued
	£'000	**£'000**	£'000	£'000
Cost of sales	**22,749**	**747**	16,662	443
Net operating expenses				
Distribution costs	**3,996**	**113**	2,939	52
Administrative expenses	**6,028**	**201**	4,535	163
Operating expenses	**10,024**	**314**	7,474	215
Restructuring and other exceptional costs (Note 4)	**1,048**	**–**	1,279	–
Negative goodwill	**(1,163)**	**–**	–	–
Net operating expenses	**9,909**	**314**	8,753	215

4. Operating profit

	2008	2007
	£'000	£'000
Operating profit is after charging/(crediting):		
Negative goodwill release	**(1,163)**	(5)
Depreciation on owned tangible fixed assets	**1,149**	953
Depreciation on tangible fixed assets held under finance leases	**144**	66
Research and development expenditure		
– current year expenditure	**591**	365
Operating lease rentals		
– land and buildings	**1,138**	942
– plant and machinery	**93**	28
Auditors' remuneration		
– audit of the Group's annual financial statements	**25**	23
– audit of the Group's subsidiaries, pursuant to legislation	**98**	83
– tax services	**28**	5
Loss on sale of fixed assets	**–**	57
Restructuring costs	**975**	1,249
Abortive acquisition costs	**73**	30
Loss on foreign currency translation	**147**	220

Included within Auditors' remuneration for audit services is £13,000 *(2007: £9,000)* for the audit of overseas subsidiaries carried out by auditors other than Bright Grahame Murray.

5. Finance costs

	2008	2007
	£'000	£'000
Bank overdrafts and loans wholly repayable within five years	**255**	158
Finance leases and hire purchase contracts	**45**	26
	300	184
Attributable to discontinued operations	**(48)**	(53)
	252	131

Notes to the Group Financial Statements

6. Cash flows from operating activities

	2008 £'000	2007 £'000
Cash flows from operating activities		
Profit before taxation (continuing activities)	**1,949**	513
Loss before taxation (discontinued activities)	**(65)**	(104)
Profit before taxation	**1,884**	409
Adjustments for:		
Depreciation	**1,293**	1,019
Loss on disposal of fixed assets	**–**	57
Negative goodwill	**(1,163)**	(5)
Loss on disposal of businesses	**123**	–
Restructuring and other exceptional charges	**1,048**	1,279
Interest receivable	**(74)**	(49)
Interest payable	**300**	184
Operating profit before working capital changes	**3,411**	2,894
(Increase)/decrease in trade and other receivables	**(48)**	113
Increase in inventories	**(318)**	(14)
(Decrease)/increase in trade payables	**(1,001)**	17
Payments on closure of retirement benefit schemes	**(1,086)**	–
Payments for restructuring and other exceptional costs	**(699)**	(942)
Other non-cash movements	**(37)**	27
Cash generated from operations	**222**	2,095
Interest paid	**(300)**	(184)
Taxation paid	**(141)**	(457)
Net cash (outflow)/inflow from continuing operations	**(28)**	1,553
Net cash (outflow) from discontinued operations	**(191)**	(99)
Net cash (outflow)/inflow from operating activities	**(219)**	1,454

7. Staff information (including Directors)

	2008 £'000	2007 £'000
Employee costs were:		
Wages and salaries	**12,272**	9,242
Social security costs	**1,212**	925
Other pension costs (Note 24)	**621**	270
Share based payment expense	**11**	27
	14,116	10,464

The average monthly number of persons employed by the Group during the year was as follows:

	2008 No.	2007 No.
Administration and sales	**176**	130
Production	**1,008**	913
	1,184	1,043

Notes to the Group Financial Statements

8. Directors' remuneration

	2008	2007
	£'000	£'000
Aggregate emoluments	**286**	262
Bonuses	**300**	102
Pension contributions	**32**	30
Sums charged by third parties for directors' services (note 28b)	**24**	22
	642	416

Bonuses are payable by reference to individual Directors' contracts of employment and by reference to performance related targets including acquisitions. Pension contributions are to defined contribution schemes. Two Directors are accruing benefit under a defined contribution scheme *(2007: two directors).*

The emoluments of the highest paid Director were £255,000 *(2007: £191,000)* and the Group made pension contributions of £18,000 *(2007: £13,000)* on his behalf.

Following the purchase of Sifam Instruments Limited at a sum considerably below its fair value, the Board decided that it would be appropriate to seek the views of an independent firm of remuneration consultants regarding directors' bonuses. The independent consultants concluded that it would not be unreasonable to create a pool of £300,000 to be shared equally between the three directors, all of whom participated in the purchase and integration of Sifam (see also note 28b).

Consequently, the executive directors waived their entitlement to performance related bonuses totalling £70,000.

9. Taxation

	2008	2007
(a) (i) Analysis of tax (credit)/charge for the period on continuing operations	**£'000**	£'000
Current taxation:		
UK corporation tax on profit for the period	**87**	282
Overprovision for prior year	**(287)**	(14)
Foreign tax on income for the period	**10**	58
Total current taxation	**(190)**	326
Deferred taxation:		
Origination and reversal of timing differences (note 14)	**(330)**	(305)
Tax (credit)/charge on continuing operations	**(520)**	21
(ii) Analysis of tax charge/(credit) charge for the period on discontinued operations		
Current taxation:		
UK Corporation Tax on loss for the period	**–**	(19)
Underprovision for prior year	**8**	–
Total tax (credit)/charge	**(512)**	2

9. Taxation *(continued)*

(b) Factors affecting taxation charge for the period

The current taxation charge differs from that resulting by applying the standard rate of corporation tax in the UK (30%) and is explained below:

	Tax Rate	**2008 £'000**	Tax Rate	2007 £'000
Profit before taxation (continuing activities)		**1,949**		513
Loss before taxation (discontinued operations)		**(65)**		(104)
Profit on ordinary activities before taxation		**1,884**		409
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**30.0%**	**565**	30.0%	123
Effects of:				
Expenses not deductable for tax purposes	**1.8%**	**34**	2.9%	12
Non taxable negative goodwill arising on consolidation	**(18.5%)**	**(349)**	–	–
Effects of overseas tax rates	**(10.6%)**	**(200)**	(39.1%)	(160)
Marginal rate relief	**–**	**–**	(1.0%)	(4)
Adjustments of taxation charge in respect of previous periods	**(14.8%)**	**(279)**	(3.3%)	(14)
Change in tax rates	**0.8%**	**15**	–	–
Unprovided deferred tax asset timing differences	**(15.8%)**	**(298)**	11.0%	45
	(27.1%)	**(512)**	0.5%	2

(c) Factors that may affect future taxation charges

Deferred taxation assets amounting to £253,000 have not been provided in respect of unutilised income tax losses that can be carried forward against future taxable income as there is currently insufficient evidence that these assets will be recovered.

Previously unprovided deferred taxation assets relating to capital losses have now been fully utilised. *(2007: £236,000).*

10. Dividends paid

	2008 £'000	2007 £'000
Dividend paid of 0.40p per share *(2007: 0.35p per share).*	**347**	274

A proposed final dividend of 0.45p per share was declared after the year-end. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

11. Earnings per share

Basic earnings per share is based on profit after taxation on all operations of £2,396,000 *(2007: £407,000)* and 86,726,003 *(2007: 80,689,790)* ordinary shares of 5p each, being the weighted average number of shares in issue during the year.

For diluted earnings per share the weighted average of number of shares in issue is increased to 87,092,709 *(2007: 80,893,746)* to reflect the potential dilution effect of employee share schemes.

Earnings per share on continuing operations before exceptional items, negative goodwill and loss on disposal of businesses is disclosed to provide a measure of underlying performance and is calculated as profit after tax of £2,148,000 divided by the weighted average number of shares in issue during the year.

	Basic		Diluted	
	2008 p	2007 p	**2008 p**	2007 p
Earnings per share	**2.76**	0.50	**2.75**	0.50
Earnings per share on continuing operations	**2.85**	0.61	**2.83**	0.61
Earnings per share on continuing operations before exceptional items, negative goodwill and loss on disposal of businesses	**2.48**	1.73	**2.47**	1.72

Notes to the Group Financial Statements

12. Fixed assets

Group	Land & buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Equipment, fixtures, fittings and vehicles £'000	Total £'000
Cost or valuation					
At 1 February 2006	–	3	6,216	1,794	8,013
Currency translation	–	–	–	(13)	(13)
Acquisition of subsidiary	5,060	115	11,581	749	17,505
Additions	–	–	445	165	610
Disposals	(4,685)	–	(432)	(576)	(5,693)
Transfer to assets held for sale	(375)	(30)	(5,421)	(316)	(6,142)
At 31 January 2007	–	88	12,389	1,803	14,280
Currency translation	–	–	–	17	17
Acquisition of subsidiary	2,336	–	2,695	350	5,381
Additions	–	–	837	186	1,023
Disposals	(2,336)	–	(843)	(177)	(3,356)
At 31 January 2008	**–**	**88**	**15,078**	**2,179**	**17,345**
Depreciation					
At 1 February 2006	–	2	4,584	1,262	5,848
Currency translation	–	–	–	(2)	(2)
Acquisition of subsidiary	395	113	9,227	714	10,449
Charge for the year	17	3	817	182	1,019
Disposals	(396)	–	(423)	(522)	(1,341)
Transfer to assets held for sale	(16)	(30)	(5,016)	(314)	(5,376)
At 31 January 2007	–	88	9,189	1,320	10,597
Currency translation	–	–	–	3	3
Acquisition of subsidiary	–	–	2,345	314	2,659
Charge for the year	–	–	976	219	1,195
Disposals	–	–	(821)	(163)	(984)
At 31 January 2008	**–**	**88**	**11,689**	**1,693**	**13,470**
Net book value					
At 1 February 2006	–	1	1,632	532	2,165
At 31 January 2007	–	–	3,200	483	3,683
At 31 January 2008	**–**	**–**	**3,389**	**486**	**3,875**

The net book value of assets held under finance leases and hire purchase contracts was £1,079,000 *(2007: £1,452,000)*.

13. Investment in subsidiary undertakings

Name	*Country of incorporation*	*Nature of business*	*Shares held by parent*	*Shares held by Group*
Elektron Components Limited	UK	Design, manufacture and sale of electromechanical components	100%	0%
Elektron Components Corporation Inc.	USA	Sale of electromechanical components	0%	100%
Arcolectric Tunisie Sarl	Tunisia	Manufacture of electromechanical components	0%	100%
Arcolectric Switches (Hong Kong) Limited	Hong Kong	Manufacture of electromechanical components	100%	0%
Bulgin Components Plc	UK	Design, manufacture and sale of electromechanical components	100%	0%
Howle Holdings Limited	UK	Intermediate holding company	100%	0%
Howle Carbides Limited	UK	Design, manufacture and sale of tungsten carbide wear components	0%	100%
Titman Tip Tools Limited	UK	Design, manufacture and sale of tungsten carbide routing tools	0%	100%
Titman Tip Tools Gmbh	Germany	Sale of tungsten carbide routing tools	0%	100%
Penyard Industries Limited	UK	Intermediate holding company	0%	100%
Sifam Instruments Limited	UK	Design, manufacture and sale of measuring instruments and mouldings	100%	0%
Advanced Electronic Technologies Limited	UK	Intermediate holding company	0%	100%
Digitron Instrumentation Limited	UK	Design, manufacture and sale of measuring instruments	0%	100%

All subsidiary undertakings are included in the consolidation and operated primarily in the country of incorporation except for Arcolectric Switches (Hong Kong) Ltd which operated in China.

14. Deferred income tax

	2008	2007
	£'000	£'000
Deferred income assets recoverable after more than one year	**354**	174
Deferred income liabilities recoverable after more than one year	**(116)**	(237)
Net assets/(liabilities)	**238**	(63)

The gross movement on the deferred income tax accounts is as follows:

	2008	2007
	£'000	£'000
At 1 February 2007	**(63)**	89
Acquisition of subsidiary	**(29)**	(457)
Origination and reversal of timing differences (Note 9a)	**330**	305
At 31 January 2008	**238**	(63)
Depreciation in excess of capital allowances/(accelerated capital allowances)	**29**	(72)
Other timing differences	**209**	9
Undiscounted asset/(liability) for deferred taxation	**238**	(63)

Deferred taxation assets have only been recognised for companies with a past history of profitable trends where there is persuasive and reliable evidence in the form of management accounts and financial projections that trading profits are anticipated to arise in the year to 31 January 2009.

No deferred tax liabilities have been provided in respect of the unremitted earnings of the overseas subsidiaries. The amount of such unremitted earnings is estimated to be a retained profit of £2,258,000 (2007: £1,549,000).

15. Inventories

	2008 £'000	2007 £'000
Raw materials	**3,692**	2,240
Work in progress	**1,104**	1,122
Finished goods and goods for resale	**1,821**	1,612
	6,617	4,974

In the ordinary course of business, the Group makes provision for slow-moving, excess and obsolete inventory as appropriate.

Inventory is stated after charging impairments of £148,000 *(2007: £99,000)* which are included within operating profit.

The amount of inventory recognised as an expense during both the current and prior year is equal to the amount recognised within the cost of sales.

16. Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	**6,775**	5,685
Less: provision for impairment	**(215)**	(118)
Trade receivables – net	**6,560**	5,567
Corporation tax recoverable	**89**	–
Other receivables	**446**	4,500
Prepayments	**584**	439
	7,679	10,506

Included within other receivables in 2007 is an amount of £4,415,000 from Panther Securities, a related party (see note 28).

The fair values of trade and other receivables are considered to be as stated above.

Trade receivables are normally due within 60 to 90 days and do not bear any effective interest rate. Some trade receivables are covered by credit insurance. There is no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

Trade receivables of £272,000 *(2007: £127,000)* in excess of 60 days overdue are considered potentially impaired. The amount of the impairment provision was £215,000 as at 31 January 2008 *(2007: £118,000)*. The specifically impaired receivables relate to a wide variety of individual customers.

Movement on the provision for impairment of trade receivables are as follows:

	2008 £'000	2007 £'000
At 1 February	**118**	61
Increase in provision for receivables impairment	**91**	12
Acquisition of subsidiary	**13**	70
Receivables written off during year	**(7)**	(5)
Unused amounts reversed	**–**	(20)
At 31 January	**215**	118

17. Called-up share capital

	2008 £'000	2007 £'000
Authorised		
200,000,000 *(2007: 200,000,000)* Ordinary shares of 5p each	**10,000**	10,000
Allotted, called up and fully paid		
86,726,003 *(2007: 86,726,003)* Ordinary shares of 5p each	**4,336**	4,336

At 31 January 2008 under the Elektron Plc Executive Share Option Scheme, there were unexercised options on 3,000,000 *(2007: 3,000,000)* Ordinary shares of 5p each. These options are exercisable after three years but before ten years from the date of granting in whole or in part at a price of 15.08p per share.

Year of grant	Exercise period	2008 '000	2007 '000
2001	2004 - 2011	**500**	700
	2004 - 2008	**200**	–
2004	2007 - 2014	**2,300**	2,300

Share options are valued using an independent binominal probability valuation model and take account of the performance criteria. The Group recognised a charge of £11,000 in the year *(2007: £27,000)*.

The volatility of the share price is based on historical volatility over the expected term and the risk free rate of return is the yield on zero coupon UK government bonds at the time of the option grants.

18. Share capital and reserves

Group	*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 2006	3,954	244	–	67	46	42	2,213	6,566
Transfer from income and expense account	–	–	–	–	–	–	407	407
Employee share scheme transfer	–	–	–	–	27	–	–	27
Dividends paid on ordinary shares	–	–	–	–	–	–	(274)	(274)
Exchange differences	–	–	–	–	–	(61)	–	(61)
Share purchase	(39)	–	–	39	–	–	(132)	(132)
Share issue	421	–	1,047	–	–	–	–	1,468
At 1 February 2007	4,336	244	1,047	106	73	(19)	2,214	8,001
Transfer from income and expense account	–	–	–	–	–	–	2,396	2,396
Actuarial gain on retirement benefit obligations	–	–	–	–	–	–	41	41
Employee share scheme transfer	–	–	–	–	11	–	–	11
Dividends paid on ordinary shares	–	–	–	–	–	–	(347)	(347)
Exchange differences		–	–	–	–	71	–	71
At 31 January 2008	**4,336**	**244**	**1,047**	**106**	**84**	**52**	**4,304**	**10,173**

Other reserves comprise a legal reserve of £2,000 as required by Tunisian law plus reserves arising from the application of IFRS 2, 'Share Based Payments' of £82,000.

Notes to the Group Financial Statements

19. Borrowings

	2008 £'000	2007 £'000
Bank overdrafts and invoice discounting facilities	**2,783**	3,528
Obligations under finance leases and hire purchase contracts	**754**	511
Bank loans	**–**	1,857
	3,537	5,896
Short term borrowings	**2,783**	5,385
Current portion of long term borrowing	**283**	225
Long term borrowings	**471**	286
	3,537	5,896
Analysis of repayments:		
Bank overdrafts and invoice discounting facilities:		
Within one year	**2,783**	3,528
Finance leases and hire purchase contracts:		
Within one year	**283**	225
In two to five years	**471**	286
	754	511
Bank loans:		
Within one year	**–**	1,857
	3,537	5,896

Invoice discounting facilities of £2,750,000 are secured by debentures and fixed charges over certain of the assets of the Group.

Bank overdrafts and invoice discounting facilities attract interest at 1.5% to 1.75% over base rate.

Bank loans attracted interest at 1.75% to 2% over Libor/base rates and at a 6.75% fixed rate until repaid during the year.

Notes to the Group Financial Statements

20. Provisions

	2008	2007
	£'000	£'000
Non current	**242**	251
Current	**829**	500
	1,071	751

	Pension costs £'000	Dilapidation costs £'000	Warranty costs £'000	Restructuring costs £'000	Total £'000
At 1 February 2007	–	309	81	361	751
Acquired with subsidiary	909	–	–	–	909
Utilised in the year	(909)	(17)	(6)	(632)	(1,564)
Charged to profit and loss account	–	–	–	975	975
At 31 January 2008	**–**	**292**	**75**	**704**	**1,071**

Included in the acquisition of Sifam Instruments Limited was a pension liability of £909,000 which was subsequently settled by the Group.

The dilapidation costs relate to redecoration and maintenance costs required to meet the terms of property leases held by the Group and are quantified by reference to third party reports.

The warranty provision represents management's best estimate of the Group's liability for the cost of any replacement product required under normal terms and conditions of sale, the quantification of which is based on past experience.

The restructuring costs relate principally to the costs of transferring production to Group companies in China and Tunisia.

21. Trade and other payables

	2008	2007
	£'000	£'000
Trade payables	**3,079**	2,717
Other payables	**394**	377
Accruals & deferred income	**1,616**	1,515
	5,089	4,609

The fair value of trade payables has not been disclosed as, due to their short-term nature, management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

22. Capital commitments

Expenditure contracted but not provided for in the financial statements amounted to £123,000 *(2007: £171,000)*.

23. Operating lease commitments

At 31 January 2008 the Group had total commitments under non-cancellable operating leases as follows:

	Land and buildings		*Other*	
	2008	2007	**2008**	2007
Minimum lease payments:	**£'000**	£'000	**£'000**	£'000
Expiring within one year	**1,023**	1,018	**75**	90
Expiring between two and five years	**3,149**	2,531	**87**	72
Expiring after five years	**1,276**	1,367	**–**	–
	5,448	4,916	**162**	162

24. Retirement benefit schemes

(i) Defined contribution schemes

The Group operates a Group Personal Pension Plan for all qualifying employees.

Contributions to the Group Personal Pension Plan and to other Personal Pension Plans are charged to the profit and loss account as they become payable. The pension cost charge for the year was £621,000 *(2007: £270,000)* and outstanding contributions at the year-end amounted to £224,000 *(2007: £21,000).*

(ii) Defined benefit schemes

The acquisition of Sifam Instruments Limited included a defined benefit pension scheme the winding up of which commenced on 28 August 2001. The claim under Section 75 Pensions Act 1995 pursuant to the winding up crystallised the deficit at £2,493,000 payment of which was made by instalments. The balance due at the time of acquisition on 3 August 2007 was £909,000 which was settled in cash immediately following acquisition.

The acquisition of Howle Holdings Plc, in the prior year, included The Richard Lloyd Group Pension and Assurance Scheme, which is a defined benefit scheme. In December 1993 the scheme was made paid up meaning that no further accrued benefits arose to members after that date.

The last full actuarial valuation of the scheme was carried out by a qualified actuary, as at 5 April 2006 using the projected unit method. This valuation was updated to 31 October 2006, (the date of acquisition), and to 31 January 2007 to provide an IAS 19 valuation.

As disclosed in note 27, the Richard Lloyd Group Limited was sold on 22 September 2007 and consequently the Group has no further liability in respect of the scheme. At the date of disposal, the actuarial gain calculated by the scheme actuary was £41,000.

The amounts recognised in the balance sheet, invested in government bonds with an annualised return of 5% are:

	31 January 2008 £'000	31 January 2007 £'000
Market value of assets	**–**	1,802
Present value of liabilities	**–**	(2,020)
Net pension liabilities	**–**	(218)

The amounts recognised in the pension statement are:

	2008 £'000	2007 £'000
Expected return on pension scheme assets	**–**	23
Expected return on pension scheme liabilities	**–**	(26)
Interest on the obligation	**–**	(3)

24. Retirement benefit schemes *(continued)*

The movements in the net pension liability and the amount recognised in the balance sheet are:

	£'000
Deficit at 1 February 2007	(218)
Acquired with subsidiary	(909)
Actuarial gain	41
Employer contributions	1,086
Deficit at 31 January 2008	–

25. (a) Financial assets and liabilities

(i) Financial instruments

The Group's financial instruments comprise borrowings, cash and cash equivalents and various items such as trade receivables and payables that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group has not entered into derivatives transactions nor does it trade in financial instruments as a matter of policy. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board's policy on each is described in note 1 and has not changed since 2007. Operations are financed through working capital management and short term flexibility is achieved by invoice discounting facilities.

Treasury matters are dealt with on a Group basis and are approved by the Main Board. At 31 January 2008 gross gearing on tangible net assets was 35% *(2007: 70%)*.

Export turnover for the year accounted for 54% *(2007: 63%)* of sales.

(ii) Financial assets: excluding receivables due within one year

The only financial asset held is cash and cash equivalents. The balances as at 31 January are detailed below:

	2008	2007
	£'000	£'000
Sterling accounts	**1,564**	444
US Dollar accounts	**287**	191
Tunisian Dinar accounts	**71**	90
Euro accounts	**105**	78
Hong Kong Dollar accounts	**90**	20
Other	**2**	35
	2,119	858
Offset against borrowing	**(132)**	–
	1,987	858

25. (a) Financial assets and liabilities *(continued)*

(iii) Financial liabilities: excluding non-debt current liabilities

The only financial liabilities of the Group which are subject to interest charges are bank loans, invoice discounting facilities, overdrafts and obligations under finance leases and hire purchase contracts. All borrowings attract interest at variable rates.

At 31 January the interest rate profile of the Group's financial liabilities was as follows:

	2008 £'000	2007 £'000
Floating rate financial liabilities	**3,537**	5,131
Fixed rate financial liabilities	**–**	765
	3,537	5,896

(iv) Maturity

The maturity profile is shown in Note 19 above.

(v) Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is not significantly different from their book value.

(vi) Committed undrawn borrowing facilities

At the year end the Group had committed undrawn facilities of £2,747,000 *(2007: £713,000)* which related to invoice discounting facilities repayable on demand in the event of any breaches in the covenants given by the Group.

(b) Currency risk

The Group has transactional currency exposure arising from normal trading activity. Such exposure arises from sales and purchases in currencies other than sterling. The Group does not trade in derivatives or make speculative hedges.

At 31 January 2008 the Group had nil commitment under non-cancellable forward contracts *(2007: £Nil)*.

The Group's currency exposure being those transactional exposures that give rise to net currency gains and losses recognised in the profit and loss account, was as follows:

		2008			2007	
	Trade receivables £'000	**Trade payables £'000**	**Cash and cash equivalents £'000**	Trade receivables £'000	Trade payables £'000	Cash and cash equivalents £'000
US dollar	**1,105**	**163**	**287**	851	215	191
Euro	**931**	**298**	**105**	674	294	78
Tunisian Dinar	**–**	**23**	**71**	–	–	90
Hong Kong Dollar	**6**	**33**	**90**	15	37	20
Danish Krone	**3**	**1**	**–**	5	–	–
Other	**39**	**19**	**2**	67	33	35
	2,084	**537**	**555**	1,612	579	414
Offset against Sterling borrowing			**(132)**			–
			423			414

(c) Sensitivity analysis

For the year ended 31 January 2008 it is estimated that, for a one percent exchange rate movement, the Group's £ sterling reported profit before tax would have changed by:

- £0.05 million (2007: £0.04 million) for the US dollar
- £0.03 million (2007: £0.02 million) for the Euro
- £0.02 million (2007: £0.01 million) for the Tunisian Dinar

Sensitivity to other currencies and interest rates are not considered to be material.

Notes to the Group Financial Statements

26. Major non-cash transactions

During the year the Group entered into finance lease and hire purchase arrangements in respect of fixed assets with a total capital value at the inception of these agreements of £302,000 *(2007: £164,000)*.

27. Business combinations and disposals

(a) Business Combinations

On 3 August 2007, the Group acquired the entire share capital of Sifam Instruments Ltd whose principal activities are the design,manufacture and sale of nano-positioning instruments, electrical and electronic measuring instruments and precision multi-shot mouldings.

The acquired business contributed sales revenues of £3,695,000 and net loss after tax of £147,000 after charging £135,000 of exceptional costs and a tax charge of £90,000. If the acquisition had been made on 1 February 2007, the sales revenue would have been £7,800,000 and a profit after taxation of £120,000. These amounts have been calculated using Sifam's management information for the pre acquisition period from 1 February 2007 to 2 August 2007 together with the post acquisition results. The pre-acquisition results are not considered to be materially different had the fair value adjustments been made at 1 February 2007 and post acquisition policies been applied to the pre acquisition period.

Details of the net assets acquired and negative goodwill are as follows:	£'000
Purchase consideration	
– Cash paid	2,000
– Costs incurred	168
– Estimated adjustment to purchase price*	(260)
Total purchase consideration	1,908
Fair value of net assets acquired	3,071
Negative Goodwill credited to Group Income Statement	(1,163)

*The adjustment to the purchase price represents the amount estimated as recoverable from sums held in escrow.

The assets and liabilities acquired as at 3 August 2007 are as follows:	Acquiree's carrying amount £'000	Adjustments £'000	Fair value £'000
Property, plant and equipment	1,256	1,466	2,722
Intellectual property	40	(40)	–
Inventory	1,187	158	1,345
Trade receivables and other receivables	1,122	–	1,122
Cash	288	–	288
Trade and other payables	(957)	(308)	(1,265)
Retirement benefit obligations	(909)	–	(909)
Borrowings	(164)	–	(164)
Corporation tax	(39)	–	(39)
Deferred tax	290	(319)	(29)
Net assets acquired	2,114	957	3,071
Purchase consideration paid			2,000
Costs incurred			168
Cash and cash equivalents in subsidiary acquired			(288)
Cash outflow on acquisition			**1,880**

The adjustments to the fair value arise as a result of revaluing the property and other assets in accordance with Elektron accounting policies and taking account of the realisable values of certain assets.

27. Business combinations and disposals *(continued)*

(b) Disposals

(i) NPE-Innotek Limited

On 22 March 2007 the Group disposed of certain assets and the business of NPE-Innotek Limited for a cash consideration of £68,000 (net of expenses). The assets sold comprised all of the fixed assets, inventory, goodwill, business information and intellectual property rights. The purchaser also assumed obligations under certain hire purchase agreements. Excluded from the sale were payables and receivables.

(ii) Richard Lloyd Group Limited and its subsidiary Richard Lloyd Limited

On 5 September 2007 the Group disposed of the entire share capital of Richard Lloyd Group Limited and its subsidiary Richard Lloyd Limited for a nominal consideration.

(iii) The assets and liabilities disposed of in the above transactions are noted below:

	£'000	£'000
Consideration (net of expenses)		98
Fixed assets	761	
Inventories	177	
Debtors and other debtors	354	
Trade creditors and accruals	(209)	
Short term borrowings	(236)	
Current portion of long term borrowings	(74)	
Long term borrowings	(102)	
Loan	(450)	
Net assets disposed of		(221)
Loss on disposal		(123)
Satisfied by:		
Cash received (net of expenses)		68
Deferred consideration		30
Net consideration		98

(iv) Analysis of the results of discontinued operations

	£'000
Revenue	1,044
Expenses	(1,109)
Loss before tax on discontinued operations	(65)
Tax	(8)
Loss after tax on discontinued operations	(73)

(v) Cash flow relating to discontinued operations

	£'000
Operating cash flow	(191)
Investing cash flow	–
Financing cash flow	191
Total cash flow	–

28. Related party transactions

(a) Transactions between Group companies, which are related parties, have been eliminated on consolidation and have therefore not been disclosed.

(b) Specialist Holdings Ltd, a company of which Mr K.A. Daley is a Director and Shareholder, charged fees of £24,000 *(2007: £22,000)* during the year in respect of services provided by him as non-executive Director and earned fees of £157,000 *(2007: £82,000)* in respect of consultancy services, including £100,000 as described in note 8.

(c) The Group occupies a number of leasehold properties with annual rentals of £912,000, the landlord of which is part of Panther Securities Plc, a significant shareholder in Elektron Plc. Elektron Plc, the Company has also given rental guarantees to Panther as described in note 10 to the parent Company financial statements.

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29. Post balance sheet events

In June 2008 the Group entered into a 5-year term acquisition facility for £2,000,000 secured by debentures over the assets of the Group.

In June 2008 the Group acquired 23.2% of the issued share capital of Hartest Holdings Plc, a supplier of instrumentation and medical equipment, at a cost of £1,308,000.

Independent Auditors' Report – Company

To the Members of Elektron Plc

We have audited the Parent Company financial statements of Elektron Plc for the year ended 31 January 2008 which comprise the Company balance sheet and the related notes. These financial statements have been prepared on the basis of the accounting policies set out therein.

We have reported separately on the Group financial statements of Elektron Plc for the year ended 31 January 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The directors' responsibility for preparing the Parent Company's financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the directors' report is consistent with the Parent Company financial statements. In addition we report to you if, in our opinion, the Parent Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company financial statements. This other information comprises only the Report of the Directors and the Chief Executive Officer's Statement. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Parent Company as at 31 January 2008, the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985 and the information given in the Directors' Report is consistent with the Parent Company's financial statements.

Bright Grahame Murray
Chartered Accountants and Registered Auditors

131 Edgware Road
London W2 2AP

26 June 2008

Parent Company Balance Sheet

As at 31 January 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	3	**23**	41
Investments in subsidiary undertakings	4	**7,052**	5,143
		7,075	5,184
Current assets			
Debtors	5	**8,034**	2,609
Cash at bank and in hand		**303**	20
		8,337	2,629
Creditors: amounts falling due within one year	6	**(8,115)**	(1,483)
Net current assets		**222**	1,146
Total assets less current liabilities		**7,297**	6,330
Provisions for liabilities and charges	7	**(13)**	(18)
		7,284	6,312
Capital and reserves			
Called up share capital	8	**4,336**	4,336
Share premium	8	**244**	244
Merger reserve	8	**1,047**	1,047
Capital redemption reserve	8	**106**	106
Other reserves	8	**82**	71
Profit and loss account	8	**1,469**	508
Shareholders' funds		**7,284**	6,312

The financial statements were approved by the Board of Directors on 26 June 2008 and were signed on its behalf by:

A.C.N. Girling
C.M. Leigh *Directors*

The notes on pages 42 to 45 are an integral part of these financial statements.

Notes to the Parent Company Financial Statements

1. Accounting policies

Basis of preparation
The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The principal accounting policies of the Company are set out below. Except as stated below, the following accounting policies have remained unchanged from the previous year and continue to be the most appropriate.

Tangible fixed assets
The cost of fixed assets is their purchase cost. Depreciation is calculated on the cost of each tangible fixed asset individually on a straight line basis and is designed to write off the cost of the asset, less any residual value over their estimated lives. The estimated useful lives are:

Equipment	3 – 15 years
Motor vehicles	4 years

Investments
Investments are included at cost net of any provision for impairment.

Deferred taxation
Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised where it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Retirement benefits
Defined contribution pension scheme
The pension costs charged against profits are the contributions payable to individual policies in respect of the accounting period.

Financial instruments
Income and expenditure arising on financial instruments is recognised on an accruals basis and credited or charged to the profit and loss account in the financial period to which it relates.

Accounting for share-based payments
In preparing the financial statements the Company has adopted FRS 20 'Share-based payment (IFRS 2)'.

Cash flow statement
The Company has not presented a separate cash flow statement in accordance with the exemption provided by FRS 1 (Revised), as its cash flows are included within the cash flows of the Group, as set out elsewhere in this Annual Report.

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2. Profit for the financial year

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial year amounted to £1,308,000 *(2007: profit £548,000).*

Notes to the Parent Company Financial Statements

3. Tangible fixed assets

	Equipment and vehicles £'000
Cost	
At 1 February 2007	96
Additions/disposals	–
At 31 January 2008	**96**
Depreciation	
At 1 February 2007	55
Charge for the year	18
At 31 January 2008	**73**
Net book value	
At 31 January 2008	**23**
At 31 January 2007	41

4. Investments in subsidiary undertakings

	2008 £'000	2007 £'000
At 1 February	**5,143**	2,000
Additions	**1,909**	3,143
At 31 January	**7,052**	5,143

Details of subsidiary companies are given in note 13 of the Notes to the Group Financial Statements.

5. Debtors

	2008 £'000	2007 £'000
Amounts owed by subsidiary undertakings	**7,656**	2,465
Other debtors	**294**	5
Prepayments	**2**	21
Corporation tax	**18**	79
Deferred tax (recoverable after one year)	**64**	39
	8,034	2,609

Deferred tax:	**2008 £'000**	2007 £'000
At 1 February 2007	**39**	21
Transfer to profit and loss account	**25**	18
	64	39
Accelerated capital allowances	**5**	2
Short term timing differences	**59**	37
Undiscounted deferred tax asset	**64**	39

Notes to the Parent Company Financial Statements

6. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Amounts owed to subsidiary undertakings	**7,455**	1,130
Other taxes and social security costs	**44**	39
Other creditors	**66**	63
Accruals and deferred income	**550**	251
	8,115	1,483

7. Provisions

The provision relates to a parental guarantee given by Elektron to a customer of a former subsidiary for the performance and technical support of certain power supplies. This remains in force until 2010 and full provision has been made.

	£'000
At 1 February 2007	18
Utilised in the year	(5)
At 31 January 2008	**13**

8. Share capital and reserves

Details of the share capital are given in note 17 of the Notes to the Group Financial Statements.

	Share capital £'000	*Share premium* £'000	*Merger reserve* £'000	*Capital redemption reserve* £'000	*Other reserves* £'000	*Profit and loss account* £'000	*Total* £'000
At 1 February 2007	4,336	244	1,047	106	71	508	6,312
Transfer from profit and loss account	–	–	–	–	–	1,308	1,308
Employee share scheme transfer	–	–	–	–	11	–	11
Dividends paid on ordinary shares	–	–	–	–	–	(347)	(347)
At 31 January 2008	**4,336**	**244**	**1,047**	**106**	**82**	**1,469**	**7,284**

Notes to the Parent Company Financial Statements

9. Capital and lease commitments

The company had no capital or lease commitments at 31 January 2008 or at 31 January 2007.

10. Contingent liabilities

The Company has given certain guarantees in respect of invoice discounting arrangements of a subsidiary company up to £600,000 and has guaranteed rental obligations of certain subsidiary companies up to £1,133,000.

11. Retirement benefit schemes

The Company contributes to or has obligations to contribute to certain defined contribution schemes.

12. Related party transactions

Related party transactions are the same for the Company as for the Group. Details can be found in note 28 of the Notes to the Group Financial Statements.

13. Post balance sheet events

In June 2008 the Company entered into a 5-year term acquisition facility for £2,000,000 secured by debentures over the assets of the Company and a composite multi-lateral guarantee.

In June 2008 the Company acquired 23.2% of the issued share capital of Hartest Holdings Plc, a supplier of instrumentation and medical equipment, at a cost of £1,308,000.

Group Five Year Record

	£'000				
	IFRS **2008**	IFRS 2007	IFRS As restated 2006	UK GAAP As restated 2005	UK GAAP As restated 2004
Turnover – continuing operations	**34,908**	26,010	22,467	22,683	9,334
– discontinued operations	**1,044**	607	–	333	2,649
	35,952	26,617	22,467	23,016	11,983
Operating profit excluding goodwill, discontinued operations and exceptional items	**2,135**	1,874	1,791	1,653	767
Profit before taxation	**1,949**	513	1,744	2,602	1,605
Shareholders' funds	**10,173**	8,001	6,566	5,451	3,339
Earnings per share – basic	**2.76p**	0.50p	1.63p	2.67p	2.42p
– basic before goodwill, exceptional items and discontinued operations	**2.48p**	1.73p	1.65p	1.52p	1.53p
Proposed dividends per share	**0.45p**	0.40p	0.35p	0.30p	Nil

The figures for 2008 and 2007 are extracted from this Annual Report and thus prepared under IFRS. The figures for 2006 were restated for IFRS whilst the figures for 2005 and 2004 are presented under UK GAAP.

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of the Company will be held in the premises of Elektron Plc, Melville Court, Spilsby Road, Romford, Essex, RM3 8SB on 28 July 2008 at 3 p.m for the following purposes:

Ordinary business

1 To receive the Director's Report and the Group and Parent Company financial statements for the year ended 31 January 2008 and the Auditors' Reports thereon.

2 To re-appoint Mr. K.J. Roy a Director of the Company.

3 To re-appoint Bright Grahame Murray as Auditors of the Company with effect from the conclusion of the meeting until the conclusion of the next general meeting at which financial statements are laid before the Company, and to authorise the directors to fix their remuneration in respect of such period.

4 That a final dividend for the year ended 31 January 2008 of 0.45p per Ordinary Share of 5p each in the capital of the Company, be declared payable on 5 August 2008 to shareholders registered at the close of business on 11 July 2008.

Special business

To consider and, if thought fit, to pass the following Resolutions of which those numbered 5 and 6 will be proposed as an Ordinary Resolutions and those numbered 7 and 8 will be proposed as Special Resolutions;

5 That,

(i) the Company be authorised to use electronic communications to send or supply to members any document or information that is required or authorised to be sent or supplied by the Company under the Companies Acts (as defined in section 2 of the Companies Act 2006 (the "2006 Act")) or pursuant to the Company's articles of association or any other rules or regulations to which the company may be subject, including by making such documents or information available on a website; and

(ii) the relevant provisions of the 2006 Act which apply when documents or information sent under the Companies Acts are made available on a website, shall also apply, with any necessary changes having been made, when any document or information is sent or supplied under the Company's articles of association or other rules or regulations to which the Company may be subject; and

(iii) and this Resolution 5 will supersede any provision in the Company's articles of association to the extent that it is inconsistent with this resolution.

6 That,

6.1 the directors be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (as defined in the said Section) up to an aggregate nominal amount of £5,721,000 such authority to expire five years from the date of this Resolution but to be capable of previous revocation or variation from time to time by the Company in general meeting and of renewal from time to time by the Company in general meeting for a further period not exceeding five years; and

6.2 the Company may make any offer or agreement before the expiry of this authority that would or might require relevant securities to be allotted after this authority has expired and the directors may allot relevant securities in pursuance of any such offer or agreement as if this authority had not expired; and

6.3 all previous authorities to allot relevant securities conferred by resolution of the Company pursuant to Section 80 of the Companies Act 1985 or otherwise be and they are hereby revoked, but without prejudice to any allotment, offer or agreement made or entered into prior to the passing of this Resolution.

Notice of Annual General Meeting

7 That, subject to and conditional upon Resolution 6 being passed and becoming unconditional:

7.1 the directors be and they are hereby empowered pursuant to Section 95(l) of the Companies Act 1985 to allot equity securities (as defined in Section 94(2) to Section 94 (3A) of the Companies Act 1985) pursuant to the authority conferred by the foregoing Ordinary Resolution 6 above as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited:

7.1.1 to the allotment of equity securities in connection with a rights issue in favour of the holders of Ordinary Shares in the capital of the Company in proportion (as nearly as may be practicable) to their respective holding of such shares but subject to such exclusions as the directors may deem fit to deal with fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory;

7.1.2 to the allotment (otherwise than pursuant to sub-paragraph (6.1.1) above) of equity securities up to an aggregate nominal value of £855,760; and

7.1.3 to the sale of shares which is an allotment of equity securities by virtue of Section 94 (3A) of the Companies Act 1985 as if the words "pursuant to the authority conferred by the foregoing Ordinary Resolution 6 above" were omitted from the first paragraph of this Resolution 7.

7.2 the power hereby conferred shall expire on the conclusion of the next Annual General Meeting following the date of this Resolution or such later date as the Company may by Special Resolution prescribe but may be previously revoked or varied by Special Resolution;

7.3 the power hereby conferred shall enable the Company to make any offer or agreement that would or might require equity securities to be allotted after such power expires and the directors may offer equity securities in pursuance of any such offer or agreement up to the maximum amount prescribed by paragraph (7.1.2) of this Resolution as if the power hereby conferred had not expired; and

7.4 all previous powers to allot equity securities conferred by Resolution of the Company pursuant to Section 95 of the Companies Act 1985 be and are hereby revoked, but without prejudice to any allotment offer or agreement made or entered into prior to the passing of this Resolution.

8 That, the Company be generally and unconditionally authorised (including for the purposes of section 166 of the Companies Act 1985) to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary Shares of 5p each in the capital of the Company and to hold any such Ordinary Shares so purchased as treasury shares (as defined in Section 162A of the Companies Act 1985) provided that:

8.1 the maximum number of Ordinary Shares hereby authorised to be purchased is 12,827,000 representing 14.99 per cent of the Company's issued share capital;

8.2 the minimum price, exclusive of any expenses, which may be paid for an Ordinary Share is 5p;

8.3 the maximum price, exclusive of any expenses, which may be paid for any such Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share taken from the AIM Appendix to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date on which such share is contracted to be purchased;

8.4 the authority hereby conferred shall expire at the close of the next annual general meeting of the Company,

8.5 the Company may make a contract for the purchase of Ordinary Shares under this authority before the expiry of this authority which would or might be executed wholly or partly after the expiry of such authority, and may make purchases of Ordinary Shares in pursuance of such a contract as if such authority had not expired.

By order of the Board

C.M. Leigh
Company Secretary 26 June 2008
Melville Court, Spilsby Road
Romford, Essex RM3 8SB

Notice of Annual General Meeting

Notes

1. A holder of Ordinary Shares is entitled to appoint one or more proxies to attend and, to vote instead of him at the Meeting convened by the above Notice. A proxy need not be a member of the Company.

2. A form of proxy is attached. Completion of the form of proxy does not preclude a holder of Ordinary shares from subsequently attending in person and voting at the Meeting convened by the above Notice.

3. In order to be valid and effective the form of proxy must be completed and signed and, together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority, be deposited at the offices of Capita Registrars, Proxy Department, PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR as soon as possible and, in any event, so as to arrive not less than forty-eight hours before the time appointed for holding the Meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of the Meeting or adjourned meeting, not less than twenty-four hours before the time appointed for the taking of the poll.

4. In the case of an individual, the form of proxy must be executed under the hand of the individual or his attorney authorised in writing. In the case of a corporation, the form of proxy must be executed under its common seal or under the hand of an officer, attorney or other person authorised to sign the same.

5. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent, Capita Registrars (ID-RA10) not less than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by Capita Registrars (ID-RA10) no later than 48 hours before the time appointed for holding the meeting.

6. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

7. In order to revoke a proxy instruction you will need to inform the Company using one of the following methods:

By sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars (address above). In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice; or

By calling the shareholder helpline on 0871 644 0300 (calls cost 10p per minute plus network extras).

In either case, the revocation notice must be received by Capita Registrars no later than 48 hours before the time appointed for holding the meeting. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

8. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, in order to be able to attend and vote at the AGM or any adjourned meeting, (and also for the purpose of calculating how many votes a person may cast) a person must have his/her name entered on the register of members of the Company by 5.00 pm on 25 July 2008 (or 3.00 pm on the date 2 days before any adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Shareholders' Notes

Form of Proxy

Elektron Plc

ANNUAL GENERAL MEETING

Please complete in BLOCK CAPITALS

I/We ....

of ....

being (an) Ordinary Shareholder(s) of Elektron Plc, hereby appoint the Chairman of the Meeting*

....

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at Elektron Plc, Melville Court, Spilsby Road, Romford, Essex, RM3 8SB on 28 July 2008 at 3 pm and at any adjournment thereof.

* If any other proxy is preferred please complete this line and strike out the words "the Chairman of the Meeting". Any alteration should be initialled by every signatory of this proxy.

I/We direct that my/our votes be cast on the Resolutions to be proposed as set out in the Notice convening the Meeting, as indicated by an "X" in the appropriate spaces below:

ORDINARY RESOLUTIONS:	**FOR**	**AGAINST**
1. To receive the Directors' Report and Financial Statements.		
2. To re-appoint Mr K.J. Roy a Director of the Company.		
3. To re-appoint the auditors and authorise the Directors to fix their remuneration.		
4. To approve a final dividend.		
5. To authorise the Company to communicate with its shareholders by electronic means.		
6. To authorise the directors to allot relevant securities up to a specified aggregate nominal amount.		
SPECIAL RESOLUTIONS:		
7. To authorise the Directors to allot relevant securities up to 20% of the issued share capital for cash without first offering them to existing shareholders.		
8. To authorise the Company to make market purchases of up to 14.99% of its issued share capital.		

If no indication is given your proxy will be deemed to have the authority to vote or abstain at his/her discretion on one or more of the Resolutions or any other business at the Meeting.

Date ....2008 Signature ....
(Please see note 2)

Notes:

1. As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in this note.
2. To be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy therefore must be completed and deposited at the address shown overleaf not less than 48 hours before the time appointed for holding the Meeting.
3. In the case of a corporation this form of proxy must be executed under its common seal or under the hand of an officer, attorney or other person authorised to sign it. Please also indicate the capacity in which it is signed.
4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members in respect of the joint holding.
5. A proxy need not also be a member of the Company but must attend the Meeting in person to represent you.
6. Every alteration to this form must be initialled by every signatory.
7. Completion and return of a form of proxy does not prevent a holder of Ordinary Shares from attending the Meeting and voting in person, in which case any votes cast by the proxy will be excluded.
8. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. If you wish to appoint the Chairman as one of your multiple proxies, simply write "the Chairman of the Meeting". All forms must be signed and should be returned together in the same envelope.
9. CREST members who wish to appoint a proxy or proxies by using the CREST electronic appointment service may do so by using the procedures described in the CREST Manual. To be valid, the appropriate CREST message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instructions given to a previously appointed proxy, must be transmitted so as to be received by our agent Capita Registrars Limited ,(ID-RA10) not less than 48 hours before the time appointed for holding the Meeting.
10. Shares held in uncertified form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.
11. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
12. For details of how to change your proxy instructions or revoke your proxy appointment see the notes to the notice of meeting.
13. You may not use any electronic address provided in this proxy form to communicate with the Company for any purposes other than those expressly stated.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. MB 122

Do not affix postage stamp
if posted in Gt.Britain,
Channel Islands, N. Ireland or the Isle of Man

1

Capita Registrars
Proxy Department
PO Box 25
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4BR

THIRD FOLD AND TUCK IN

FIRST FOLD

Investor Information

Current shareholdings over 3%

Panther Securities Plc & related parties	18.4%
Mr. J. Kinder	18.3%
Rathbone Nominees	4.7%
Mr. R.A.R. Bulgin	3.7%
Mr. B. Bridge	3.2%
Mr K. Daley	3.0%

Share price listings
Financial Times
Evening Standard

Group web-site
www.elektronplc.com

Operating units:

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

Elektron Components Corporation
31 - 315 Plantation Drive
Thousand Palms
California
U.S.A.
Tel: +41 760 343 3650
Fax… +41 760 343 3651
Web-site www.arcolectric.com

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

Elektron Components (Shenzhen) Limited
Hua Mei Road
Heng Gang Town
Long Gang District
Shenzhen
China
Tel: +86 755 2893 1218
Fax: +86 755 2893 1132

Howle Carbides Limited
Picts Lane
Princes Risborough
Buckinghamshire
HP27 9EA
Tel: +44 1844 275171
Fax: +44 1844 342514
Web-site www.howlecarbides.com

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

Sifam Instruments Limited
Digitron Instrumentation Limited
Woodland Road
Torquay
Devon
TQ2 7AY
Tel: +44 1803 407700
Fax: +44 1803 613926
Web-site www.sifam.com

Elektron PLC, Melville Court, Spilsby Road, Romford, Essex RM3 8SB

Tel: 01708 336 300 | Fax: 01708 347 581 | Email: mail@elektronplc.com | Web: www.elektronplc.com