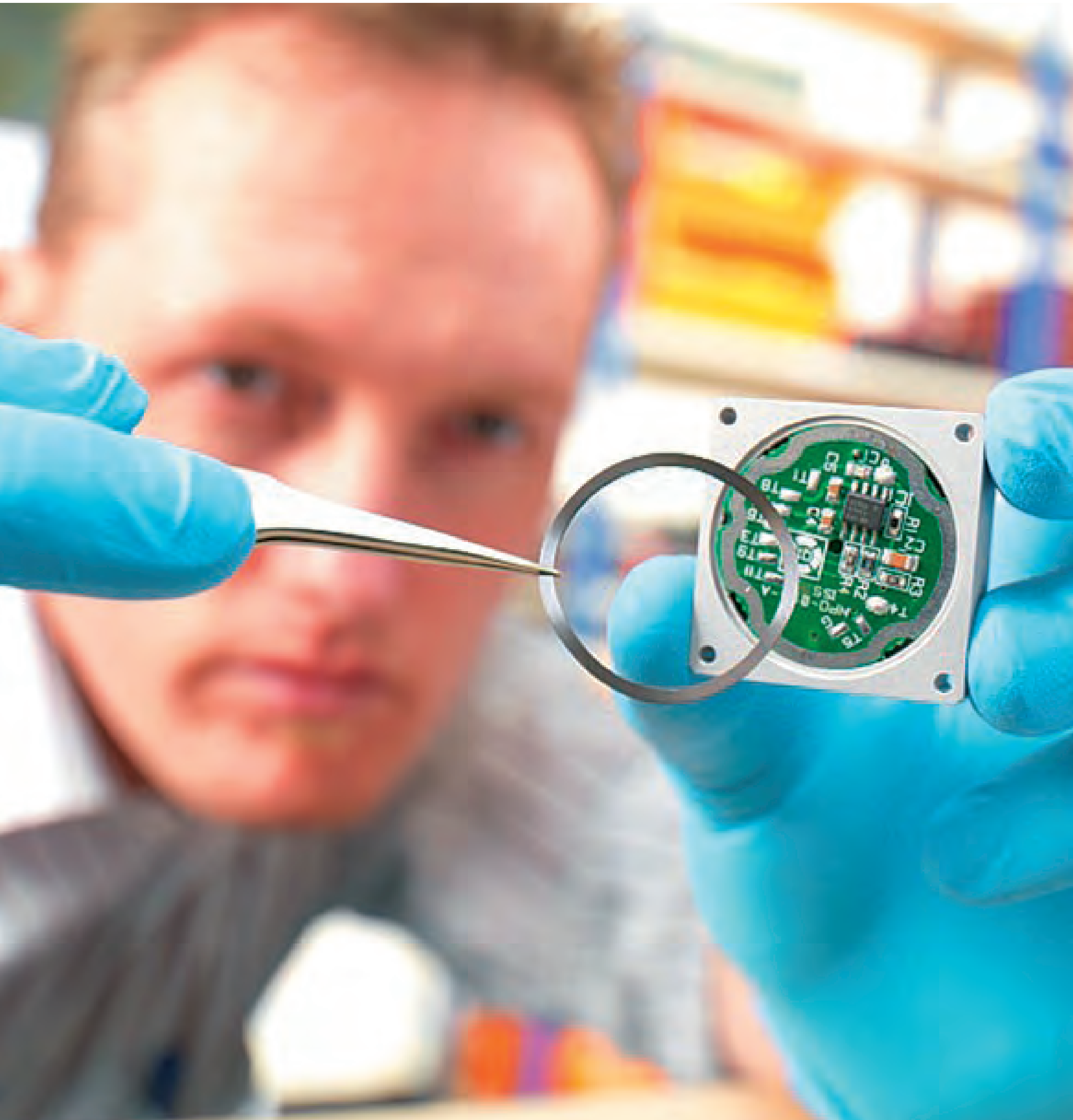
Elektron plc

interim report 2010/2011

Investing in innovation



Who we are

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

www.elektronplc.com ▸
Visit our website to download a copy of this interim report and access our expanded strategy and company descriptions.

Financial highlights

- Sales up 45% to £20.6 million (H1 2009: £14.2 million)
- EBITDA (pre-exceptionals) up 323% to £3.0 million (H1 2009: £0.7 million)
- EBIT (pre-exceptionals) up eleven-fold to £2.6 million (H1 2009: £0.23 million)
- Exceptional costs of £0.4 million largely relating to costs of acquisition of Hartest Holdings plc ("Hartest")
- Maiden interim dividend of 0.25p proposed and payable on 15 December 2010
- Order book up 48% on last year, but the Directors continue to be cautious about the second half economic environment

Operational highlights

- Significantly increased Sales and Marketing resources in Asia and the US
- Post-period end acquisition of Hartest Holdings plc

Chairman's statement

Elektron specialises in the design of technology led, engineered products and operates from two divisions, Elektron Technology and Elektron Ventures. It owns a portfolio of leading, profitable brands with potential for significant additional growth. The Group operates worldwide and employs 1,200 people including employees who are joining the Group as a result of the acquisition of Hartest.

We are pleased to report that in the first six months of the current financial year we have started to see the benefits of our strategic plans and restructuring put in place in prior years. Whilst the results for the period are impressive in their own right, the real significance of them needs to be gauged in the context of our historic figures. EBIT pre-exceptionals for the six months exceeded that of any previous twelve month period.

We now have an excellent, profitable springboard from which we can maximise the exciting opportunities that our technologies, brands and people present.

The Board is pleased to initiate an interim dividend in addition to the final dividend that was paid in August. A dividend of 0.25p will be paid on 15 December 2010 to holders on the register as at 24 September 2010. For technical reasons we are unable to offer a scrip dividend alternative on this occasion but will do so for the next dividend subject to shareholder approval.

On 30 July 2010, being the last business day of the six month accounting period, we increased our shareholding in Hartest to 53%. Following this purchase, we made an offer for this company which closed on 14 September 2010 and as a result we own 95.94% of Hartest. In accordance with accounting rules the investment is shown as an available-for-sale financial asset as at the interim balance sheet date and certain costs of the transaction are taken through the profit and loss account as exceptional items. On 1 September 2010 three Directors of Elektron were appointed to the board of Hartest which was consolidated within the Elektron Group as part of Elektron Ventures with effect from that date.

As a result of the acquisition the Group is expected to significantly increase its annual turnover with an expanded range of businesses that offer scope for creativity and innovation.

I am particularly pleased to note that we successfully attracted a number of blue chip institutions who participated in the placing of shares with regards to the acquisition of Hartest. We are delighted to welcome them as shareholders of the Company and thank them for their support.

In view of the increased scope of our activities the composition of the Board is currently under review. In the last few weeks we announced that two Directors, Malcolm Argent and Chris Leigh, were to step down. I should like to thank them for their work on behalf of the board. On a personal note I should particularly like to thank Chris who has made an outstanding contribution since he joined the Group in the early 1990s. I first started dealing with Chris in 1996 when I became an investor in Elektron.

We welcome three new Executive Directors, namely, Geoff Spink (formerly Hartest CEO) who becomes Group Finance Director, John Wilson who is MD of Elektron Technology and Neill Ricketts, MD of Elektron Ventures. Neill will be the divisional managing director responsible for the integration of Hartest.

Outlook

Although the economic outlook remains uncertain, Elektron and Hartest continue to perform well. We are cautious about the economic environment in the second half but are confident that the measures that we are putting and intend to put in place will ensure a bright future for the enlarged Group.

Keith Daley
Chairman

Operational review

Elektron Technology

Elektron Technology ("ET"): sales of £15.4 million (2009: £10.0 million); EBIT before exceptional items of £2.0 million (2009: £0.8 million)

Elektron Technology designs, develops and manufactures innovative component solutions through its three core brands: Arcolectric, Bulgin and Sifam.

2010/11 is a foundation year for Elektron Technology. In our annual report we announced that significant investment had been made in sales and marketing resource – an increase of 85% on the prior year. This, coupled with an upturn of the economy, has resulted in a healthy increase in sales and operating profit.

During the first half we have seen record monthly bookings in the Americas and Asia where our presence has traditionally been weak and where we have made the largest investment in sales and marketing.
As our strategy of continued geographical expansion and market diversification bears fruit we continue to partner with OEMs to provide value-added solutions support.

Global marketing initiatives are in place to increase brand awareness, especially outside the UK and EMEA. Our own regional and global marketing teams are assisted by a well established PR firm with extensive experience of the Americas and the Asia–Pacific region.

We have progressed our vertical integration initiative to alleviate capacity constraints, reduce cost, mitigate potential quality risks and positively influence lead times. In the rapidly growing Asia market, where lead time is a key differentiator, programmes are in place to commence multi-site product manufacture, increase capacity and reduce both the lead time to customer and the logistical overheads.

Our global video conferencing system is now fully enabled with systems installed in our offshore manufacturing locations (Tunisia and Shenzhen, China), US distribution centre and UK head office. The benefits of this are threefold – significant reduction in travel costs, increased communication throughout our global organisation and a reduction in ET's carbon footprint. Systems will shortly be installed in planned sales offices in Shanghai, China and Delhi, India.

In China there are increasing signs of indigenous OEM customers developing innovative export product. However, as this remains in its infancy, with a relative lack of sophistication, ET sees great potential through offering a 'packaged solutions' based approach. In the period under review ET opened an R&D hub in Shenzhen and continues to recruit high calibre engineers there, both to support our global design teams and provide this value-added engineering service.

Elektron's largest ever development project remains on track for launch in Q3 2011. As stated in our annual report, this £1.3 million project will increase ET's accessible market by $1 billion – the arrival of our new Technical Director from a prestigious design house will enhance this process.

John Wilson
Divisional Managing Director
Elektron Technology

Elektron Ventures

Elektron Ventures ("EV"): sales of £5.2 million (2009: £4.2 million) and EBIT before exceptional items of £0.6 million (2009: £0.4 million LBIT)

Elektron Ventures manages a portfolio of companies within the industrial and technological sectors.

I am pleased to report that, following two consecutive loss-making years, this division is now profitable and an important contributor to the Group. This follows a period of restructuring and refocusing, and EV will now assume increasing importance as a profit driver since it will now include the Hartest companies.

The four companies operating within EV for the period under review are:

Digitron – sales of £1.1 million (2009: £1.1 million), operating loss of £0.1 million (2009: operating loss of £0.2 million)
Digitron supplies bespoke temperature instrumentation to major blue chips. It is engaged

Digitron continued
in the design, development and manufacture of a range of handheld and wireless instruments for the food retail, food manufacturing, air conditioning and healthcare industries. Following a strategic review it is now in the process of being restructured and the new strategy is already beginning to show signs of promise.

Queensgate – sales of £1.1 million (2009: £0.3 million), operating profit of £0.5 million (2009: operating profit £Nil).
A specialist in nanopositioning and measurement, Queensgate has traditionally focused on the semiconductor and hard disk drive industries. I am pleased that the company achieved its profit target in the first half of the year. It is focused on delivering good quality innovative products on time to its small customer base and has recently recruited a talented and driven team.

Titman – sales of £1.2 million (2009: £1.1 million), operating profit of £0.1 million (2009: operating profit of £0.1 million)
Titman's principal focus is router cutters. The brand enjoys a premium rating in the UK market and the company is currently focused on leveraging this abroad. This expansion has begun with a new office based in California.

Total Carbide – sales of £1.8 million (2009: £1.7 million), operating profit of £0.1 million (2009: operating loss of £0.3 million)
This offers engineered powder metallurgy components to the oil and gas exploration market and we are delighted to report that the business has become profitable ahead of schedule. This has been achieved through implementing lean manufacturing techniques and the sale of high added value bespoke components.

New alloys and new processes are at advanced stages of testing, which we believe will revitalise this traditional business and position it as a sector leader.

Hartest
In addition to the above businesses, the businesses of Hartest will be consolidated into the division during the second half of the year. In the year ended 31 March 2010 Hartest's group operating profit (before non-recurring costs) was £1.6 million on turnover of £22.2 million.

There are several synergies that have been identified within the two businesses and the second half of the year will see us fully integrate Hartest's operations. There may be further opportunities to combine operations in specific cases but the trading names, sales numbers in the year ended 31 March 2010 and descriptions of the businesses currently within Hartest are as follows:

Agar Scientific (£3.1 million), based in Stansted, Essex, is a leading international supplier of consumables, accessories and specialist equipment for all disciplines of microscopy.

Carnation Designs (£2.5 million) produces integrated electrical solutions and power management systems for specialist vehicles at its factory at Heckmondwike, Yorkshire.

Hartest Precision Instruments (£9.8 million) operates from a dedicated facility in Redhill, Surrey. The company manufactures, sells and distributes a range of specialist instruments and supplies for use in testing, measurement, performance improvement and research around the world. Hartest Precision also has a profitable and expanding business in Delhi, India.
The company has the following separate branded activities:

- ASL, a manufacturer and supplier of a range of temperature metrology and temperature calibration equipment for engineers and metrologists around the world;
- Sheen, a manufacturer and supplier of high quality testing instruments used in the paint and coatings industry;
- Tinsley Ophthalmic, a manufacturer of the Henson range of ophthalmic and vision analysis instrumentation for use by optometrists;
- Tinsley Precision, a manufacturer of precision measurement and cable fault location equipment; and
- Wallace, a manufacturer of quality control and test equipment to evaluate the physical properties of rubber and other polymeric materials for the rubber and plastics industries.

Cross Technologies (£6.8 million) operates from facilities in Sandhurst, Berkshire, and is engaged in the distribution of specialist healthcare and medical equipment in both the public and private sectors throughout the UK and Ireland. The company trades under two separate brand names, Cross Tech and Qados.

Neill Ricketts
Divisional Managing Director
Elektron Ventures

Consolidated statement of comprehensive income

unaudited interim results to 31 July 2010

Continuing operations	**Unaudited Half year to 31 July 2010 £'000**	Unaudited Half year to 31 July 2009 £'000	Audited Year to 31 January 2010 £'000
Revenue	**20,619**	14,207	29,882
Cost of sales	**(12,238)**	(9,033)	(17,941)
Gross profit	**8,381**	5,174	11,941
Net operating expenses (including exceptional items)	**(6,180)**	(5,501)	(11,578)
Operating profit	**2,555**	231	1,762
Exceptional items	**(354)**	(558)	(1,399)
Operating profit/(loss)	**2,201**	(327)	363
Finance costs	**(92)**	(61)	(141)
Profit/(loss) before taxation	**2,109**	(388)	222
Taxation	**24**	6	69
Profit/(loss) after taxation	**2,133**	(382)	291
Profit/(loss) for the year attributable to equity shareholders	**2,133**	(382)	291
Other comprehensive income			
Currency translation differences on foreign currency net investments	**(60)**	(289)	(309)
Available-for-sale financial assets – gains arising during the period	**318**	—	805
Total other comprehensive income/(expense)	**258**	(289)	496
Total comprehensive income/(expense) for the period attributable to equity shareholders	**2,391**	(671)	787
Earnings/(loss) per share – basic	**2.42p**	(0.45)p	0.34p
– diluted	**2.41p**	(0.45)p	0.34p

Consolidated balance sheet

unaudited interim results as at 31 July 2010

	Unaudited 31 July 2010 £'000	Unaudited 31 July 2009 £'000	Audited 31 January 2010 £'000
Assets			
Non-current assets			
Property, plant and equipment	**4,100**	4,392	4,300
Intangibles	**57**	—	—
Available-for-sale financial assets	**3,953**	478	1,315
Deferred tax	**775**	512	583
Total non-current assets	**8,885**	5,382	6,198
Current assets			
Inventories	**5,426**	5,022	4,892
Trade and other receivables	**8,270**	5,395	6,898
Cash and cash equivalents	**3,811**	430	504
Total current assets	**17,507**	10,847	12,294
Total assets	**26,392**	16,229	18,492
Equity and liabilities			
Equity attributable to equity holders of the parent			
Called-up share capital	**5,182**	4,279	4,406
Share premium	**2,254**	244	117
Merger reserve	**1,047**	1,047	1,047
Capital redemption reserve	**163**	163	163
Other reserves	**65**	145	125
Retained earnings	**5,086**	1,341	2,635
Total equity	**13,797**	7,219	8,493
Non-current liabilities			
Long-term borrowings	**767**	1,725	1,198
Accruals and deferred income	**98**	153	150
Long-term provisions	**64**	64	64
Total non-current liabilities	**929**	1,942	1,412
Current liabilities			
Trade and other payables	**5,616**	4,465	4,562
Short-term borrowings	**3,681**	1,034	1,761
Current portion of long-term borrowings	**885**	796	911
Current tax payable	**797**	566	650
Short-term provisions	**687**	207	703
Total current liabilities	**11,666**	7,068	8,587
Total liabilities	**12,595**	9,010	9,999
Total equity and liabilities	**26,392**	16,229	18,492

Consolidated statement of changes in equity

unaudited interim results to 31 July 2010

	Share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 February 2009	4,279	244	1,047	163	434	1,723	7,890
Loss for the period	—	—	—	—	—	(382)	(382)
Currency translation differences on foreign currency net investments	—	—	—	—	(289)	—	(289)
Total comprehensive expense for the period	—	—	—	—	(289)	(382)	(671)
At 31 July 2009	4,279	244	1,047	163	145	1,341	7,219
Profit for the period	—	—	—	—	—	673	673
Currency translation differences on foreign currency net investments	—	—	—	—	(20)	—	(20)
Available-for-sale financial assets – gains arising during the year	—	—	—	—	—	805	805
Total comprehensive (expense)/ income for the period	—	—	—	—	(20)	1,478	1,458
Share issues	127	(127)	—	—	—	—	—
Dividends paid on ordinary shares	—	—	—	—	—	(393)	(393)
Adjustment for scrip dividend element	—	—	—	—	—	209	209
At 1 February 2010	4,406	117	1,047	163	125	2,635	8,493
Profit for the period	—	—	—	—	—	2,133	2,133
Currency translation differences on foreign currency net investments	—	—	—	—	(60)	—	(60)
Available-for-sale financial assets – gains arising during the year	—	—	—	—	—	318	318
Total comprehensive (expense)/ income for the period	—	—	—	—	(60)	2,451	2,391
Share issue	776	2,329	—	—	—	—	3,105
Expenses incurred in share issue	—	(192)	—	—	—	—	(192)
At 31 July 2010	**5,182**	**2,254**	**1,047**	**163**	**65**	**5,086**	**13,797**

Consolidated statement of cash flows
unaudited interim results to 31 July 2010

	Unaudited Half year to 31 July 2010 £'000	Unaudited Half year to 31 July 2009 £'000	Audited Year to 31 January 2010 £'000
Cash flows from operating activities			
Profit/(loss) before taxation (continuing activities)	**2,109**	(388)	222
Adjustments for:			
Depreciation charge	**433**	475	927
Loss on disposal of fixed assets	**12**	2	—
Restructuring and other exceptional charges	**354**	558	1,399
Interest payable	**92**	61	141
Operating cash flow before working capital changes	**3,000**	708	2,689
(Increase)/decrease in trade and other receivables	**(1,454)**	283	(1,391)
(Increase)/decrease in inventories	**(528)**	584	726
Increase in trade payables	**1,191**	768	1,038
Payments for restructuring and other exceptional costs	**(370)**	(974)	(1,293)
Other non-cash movements	**(228)**	(166)	(140)
Cash generated from operations	**1,611**	1,203	1,629
Interest paid	**(92)**	(61)	(141)
Taxation paid	**—**	(1)	(4)
Net cash inflow from operating activities	**1,519**	1,141	1,484
Cash flows from investing activities			
Purchase of available-for-sale financial assets	**(2,320)**	—	(52)
Purchase of property, plant and equipment	**(306)**	(1,003)	(1,373)
Investment in intangible assets	**(57)**	—	—
Proceeds of sale of plant and equipment	**95**	—	22
Net cash used in investing activities	**(2,588)**	(1,003)	(1,403)
Cash flows from financing activities			
Proceeds from ordinary share issue	**3,105**	—	—
Share issue expenses	**(192)**	—	—
Movement in long-term borrowings	**(200)**	(200)	(400)
Movement in short-term borrowings	**1,920**	(482)	245
New capital leases	**41**	492	479
Payment of hire purchase and finance liabilities	**(298)**	(352)	(551)
Dividends paid	**—**	—	(184)
Net cash generated from/(used in) financing activities	**4,376**	(542)	(411)
Net increase/(decrease) in cash and cash equivalents	**3,307**	(404)	(330)
Cash and cash equivalents at the beginning of period	**504**	834	834
Cash and cash equivalents at the end of period	**3,811**	430	504

Notes to the unaudited interim results
to 31 July 2010

1. Accounting policies
The interim financial information has been prepared on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union. Full details of accounting policies are included in the Annual Report for the year ending 31 January 2010.Fixed annual charges are apportioned to the interim period on the basis of time elapsed. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

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

2. Consolidation of Hartest Holdings plc
Elektron increased its holding in Hartest from 23% to 53% on 30 July 2010. However, control was not obtained until a majority of Elektron directors were appointed to the Hartest Board on 1 September 2010. Consequently, the results of Hartest have not been consolidated in this interim statement.

At the time of issue of the interim statement the fair valuing of both intangible and tangible assets is ongoing and consequently the disclosures required by IFRS3 (2008), accounting for business combinations, are not available.

3. Taxation
As a result of improved trading conditions the Group has been able to recognise deferred tax assets previously not recognised.

4. Earnings per share
Basic earnings per share is based on profit after taxation of £2,133,000 and 88,285,452 ordinary shares of 5p each, being the number of shares in issue during the period.

5. Other information
The financial information in this statement does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial information in respect of the year ended 31 January 2010 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

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

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