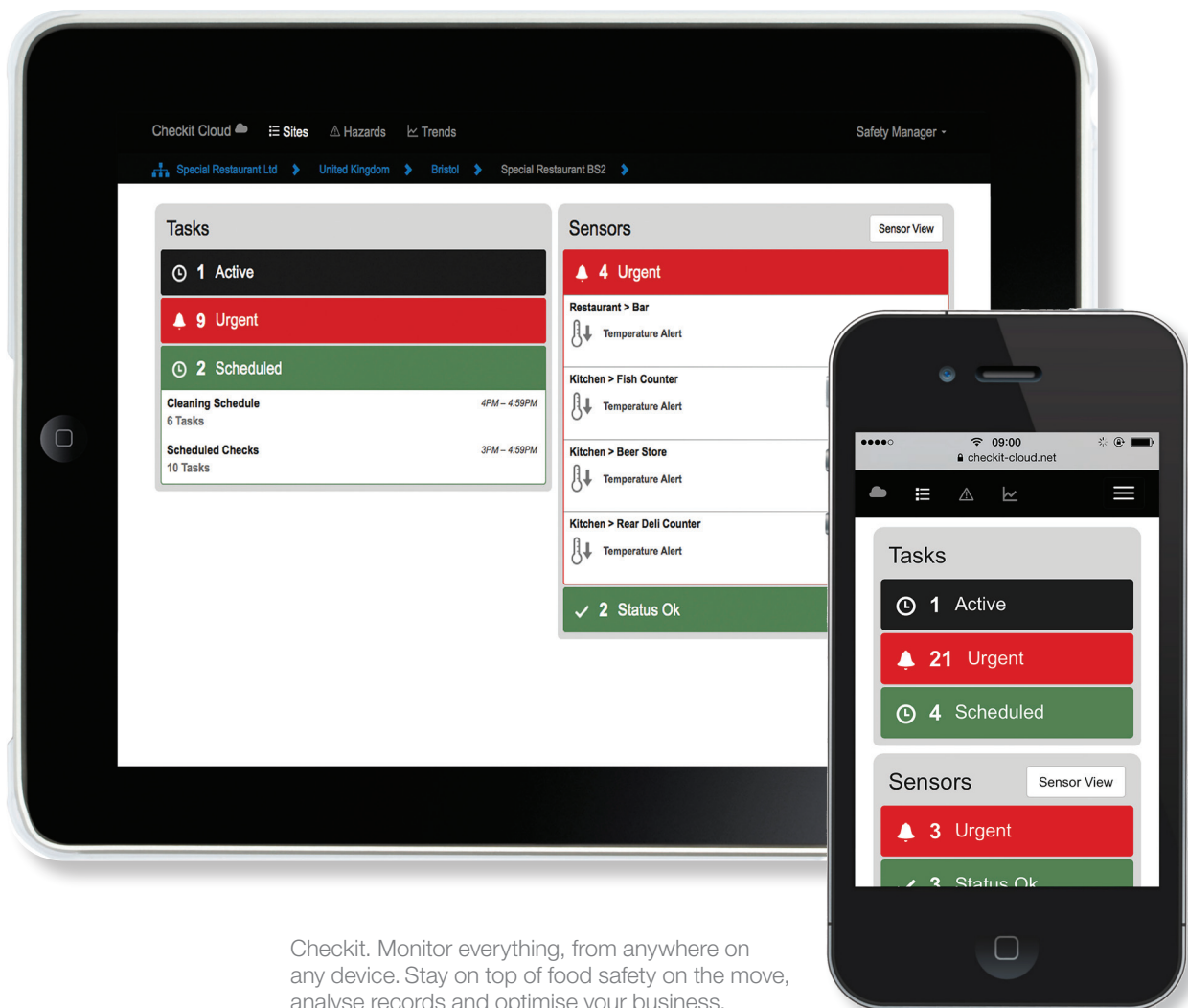


Connect Monitor Control

Elektron Technology plc
Half-Year Report 2014-15



Highlights

Contents

Highlights	1
Chairman's and Chief Executive's statement	2
Consolidated statement of comprehensive income	4
Consolidated balance sheet	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	7
Notes to the unaudited interim results	8
Directors, management and advisers	13

Performance

- ▶ Revenue: £22.1m (H1 FY14: £22.6m)
- ▶ Operating profit*: £0.6m (H1 FY14: £Nil)
- ▶ Non-recurring or special items: £1.0m, principally relating to fundraising activity, renegotiation of bank facilities and Strategic Alternatives Process undertaken

Financing

- ▶ Net debt: £4.7m (31 January 2014: £8.0m) as a result of improved operational performance, working capital management and successful fundraising
- ▶ Amended revolving credit facility agreed
- ▶ Strategic Alternatives Process ("SAP") resulted in net proceeds from a fund raise of £2.5m (after expenses of the share issue and SAP process)

New Products

- ▶ Focus on New Product Development, on track to achieve 15% of revenues from new products in 2017/18
- ▶ Sales of new products up 90% over previous year £1.9m (H1 FY14: £1.0m)

* before non-recurring and special items

Chairman's and Chief Executive's statement



Keith Daley
Chairman



John Wilson
Chief Executive

Elektron conceives, designs and markets innovative engineered products and services for businesses at its technology hub in Cambridge. It has a multi skilled team of engineers and product line specialists focused on the opportunities created by disruptive global trends in the following areas:

- New waves of “aware” business applications: Internet of Things
- Demand for ubiquitous power and data: Connectivity Solutions
- Growth in high precision manufacture: Nano-positioning
- Healthcare for the ageing population: Ophthalmology
- Connected customer experiences and service delivery: E-Commerce and E-Service

In addition, Elektron owns a portfolio of well-established products and brands that connect, monitor and control which provide customer access and feedback and are supplied through our established global network.

Elektron Technology is headquartered in Cambridge with worldwide locations close to the Group's markets. Elektron Technology's shares are admitted to trading on the AIM market of the London Stock Exchange.

Overview

The results for the first half of the current financial year demonstrate the good progress the Group has made during the past 12 months. Whilst revenues are two per cent less than the same period last year as a result of declines in legacy product ranges, selective price increases and reductions in SG&A overheads have generated an improved operating return. As previously announced, all operational exceptional costs have been eliminated with non-recurring or special items relating principally to the fund raise, announced on 23 June 2014, renegotiation of bank facilities and successful completion of the Strategic Alternatives Process. Net proceeds from the fund raise after these costs amounted to £2.5m.

The Group saw a significant cash inflow during the period as a result of the fund raise, improved working capital control and operating performance. Net debt at 31 July 2014 was £4.7m (31 January 2014: £8.0m).

Production

As previously announced, production in the Group's Tunisian manufacturing facility is substantially stable with a significantly reduced overdue backlog. With strengthened local management and the introduction of advanced processes and metrics, the Group expects to make further reductions to the backlog by increasing capacity in currently constrained areas and deliver efficiency improvements to enable a further reduction in standard product lead-time during the second half.

Chairman's and Chief Executive's statement continued

Strategic progress and innovation

The recent fundraise allows management to continue to invest and execute its strategy of innovation to develop a high growth portfolio, creating conditions that offer the potential for organic growth.

The Group continues to invest in New Product Development ("NPD") activities in three primary areas:

- Checkit – Elektron's first offering in the Internet of Things ("IoT") market, a digitised Hazard Analysis and Critical Control Point ("HACCP") food safety monitoring system with substantial global sales potential
- Bulgin – a leader in harsh environment inter-connectivity
- Queensgate – ranges of nano-positioning devices, incorporating Elektron's proprietary Dual Sensor technology

In addition to the above and most importantly, the Group has continued its critical project to refresh its legacy product range.

With a further increase in sales of new products, up 90% over prior year period to £1.9m (H1 FY14: £1.0m), the Group is making significant headway in its three year goal of achieving 15% of revenues from new products by Financial Year 2017/18. This accelerative growth is expected to increasingly offset the decline of the Group's product portfolio which is very mature and generate organic growth, with higher margins, over the medium term.

Outlook

Whilst the production issues the Group encountered last year are now resolved and the underlying operating performance of the Group has improved as a result of the actions taken during the second half of last year, Elektron continues to experience erosion of demand for its legacy product ranges. There are tentative signs, however, that the decline in Instrumentation, Monitoring and Control ("IMC") sales is coming to an end.

The Group continues to see an increase in the level of new business opportunities as a result of its new product offering and technical capabilities. In the medium term, the conversion of these opportunities is expected to restore the Group to growth and profitability. In addition, the Group is excited by the medium term potential of its IoT offering.

Despite limited order visibility, the Board anticipates that trading performance in the second half of the year will be similar to the first half and is targeting a further reduction in net debt.

Consolidated statement of comprehensive income

unaudited interim results to 31 July 2014

	Unaudited Half year to 31 July 2014 £m	Unaudited Half year to 31 July 2013 £m	Audited Year to 31 January 2014 £m
Revenue (see Note 2)	22.1	22.6	46.3
Cost of sales	(14.6)	(14.8)	(30.2)
Gross profit	7.5	7.8	16.1
Operating expenses			
Net operating expenses (excluding non-recurring or special items)	(6.9)	(7.8)	(15.5)
Operating profit before non-recurring or special items	0.6	–	0.6
Non-recurring or special items (see Note 3)	(1.0)	(2.1)	(5.0)
Total operating expenses	(7.9)	(9.9)	(20.5)
Operating loss	(0.4)	(2.1)	(4.4)
Finance costs	(0.2)	(0.2)	(0.5)
Loss before taxation	(0.6)	(2.3)	(4.9)
Taxation (see Note 4)	–	0.3	(0.4)
Loss after taxation from continuing operations	(0.6)	(2.0)	(5.3)
Discontinued operations (see Note 5)	–	(0.8)	(1.4)
Loss for the year attributable to equity shareholders	(0.6)	(2.8)	(6.7)
Other comprehensive expense			
Currency translation differences on foreign currency net investments	(0.2)	–	(0.4)
Total other comprehensive expense	(0.2)	–	(0.4)
Total comprehensive income for the period attributable to equity shareholders	(0.8)	(2.8)	(7.1)
(Loss)/earnings per share from Continuing Operations (see Note 6)			
– Basic and Diluted EPS	(0.5)p	(1.9)p	(5.1)p
– Adjusted and Diluted adjusted EPS	0.3p	(0.2)p	(0.3)p
Adjusted (loss)/earnings per share from Continuing and Discontinued Operations (see Note 6)			
– Basic and Diluted EPS	(0.5)p	(2.7)p	(6.4)p
– Adjusted and Diluted adjusted EPS	0.3p	(0.3)p	(0.6)p

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

Consolidated balance sheet

unaudited interim results to 31 July 2014

	Unaudited 31 July 2014 £m	Unaudited 31 July 2013 £m	Audited 31 January 2014 £m
Assets			
Non-current assets			
Goodwill	–	1.2	–
Capitalised R&D	3.3	2.7	3.1
Other intangible assets	2.5	3.0	2.7
Property, plant and equipment	2.9	3.8	3.4
Deferred tax	–	0.7	–
Total non-current assets	8.7	11.4	9.2
Current assets			
Inventories	5.6	6.5	6.2
Investments	–	0.8	–
Trade and other receivables	7.8	9.8	9.5
Cash and cash equivalents	0.7	1.4	0.8
Total current assets	14.1	18.5	16.5
Total assets	22.8	29.9	25.7
Current liabilities			
Trade and other payables	7.1	10.5	8.9
Borrowings	1.0	1.1	3.7
Current portion of long-term borrowings	1.5	1.6	1.5
Provisions	0.2	0.6	0.5
Total current liabilities	9.8	13.8	14.6
Non-current liabilities			
Long-term borrowings	2.9	4.5	3.6
Long-term provisions	0.1	–	0.1
Total non-current liabilities	3.0	4.5	3.7
Total liabilities	12.8	18.3	18.3
Net assets	10.0	11.6	7.4
Equity attributable to equity holders of the parent			
Called-up share capital	9.3	6.0	6.0
Share premium	5.4	5.4	5.4
Merger reserve	1.1	1.1	1.1
Capital redemption reserve	0.2	0.2	0.2
Own shares	(3.5)	(3.5)	(3.5)
Other reserves	0.6	0.4	0.5
Translation reserve	(0.8)	(0.2)	(0.6)
Retained earnings	(2.3)	2.2	(1.7)
Total equity	10.0	11.6	7.4

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

Consolidated statement of changes in equity

unaudited interim results to 31 July 2014

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Total £m
At 1 February 2013	6.0	5.4	1.1	0.2	(3.5)	0.3	(0.2)	5.0	14.3
Loss for the period	–	–	–	–	–	–	–	(2.8)	(2.8)
Currency translation differences on foreign currency net investments	–	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–	–	–	(2.8)	(2.8)
Credit in respect of share based payments	–	–	–	–	–	0.1	–	–	0.1
At 31 July 2013	6.0	5.4	1.1	0.2	(3.5)	0.4	(0.2)	2.2	11.6
Loss for the period	–	–	–	–	–	–	–	(3.9)	(3.9)
Currency translation differences on foreign currency net investments	–	–	–	–	–	–	(0.4)	–	(0.4)
Total comprehensive expense for the period	–	–	–	–	–	–	(0.4)	(3.9)	(4.3)
Credit in respect of share based payments	–	–	–	–	–	0.1	–	–	0.1
At 1 February 2014	6.0	5.4	1.1	0.2	(3.5)	0.5	(0.6)	(1.7)	7.4
Loss for the period	–	–	–	–	–	–	–	(0.6)	(0.6)
Currency translation differences on foreign currency net investments	–	–	–	–	–	–	(0.2)	–	(0.2)
Total comprehensive expense for the period	–	–	–	–	–	–	(0.2)	(0.6)	(0.8)
Share issue	3.3	–	–	–	–	–	–	–	3.3
Credit in respect of share based payments	–	–	–	–	–	0.1	–	–	0.1
At 31 July 2014	9.3	5.4	1.1	0.2	(3.5)	0.6	(0.8)	(2.3)	10.0

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

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

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

Consolidated statement of cash flows

unaudited interim results to 31 July 2014

	Unaudited Half year to 31 July 2014 £m	Unaudited Half year to 31 July 2013 £m	Audited Year to 31 January 2014 £m
Net cash flows from operating activities			
Loss before taxation			
– From continuing operations	(0.6)	(2.3)	(4.9)
– From discontinued operations	–	(0.8)	(1.4)
Adjustments for:			
Depreciation charge	0.4	0.6	0.9
Non-recurring or other special items			
– Continuing	1.0	2.1	5.0
– Discontinued	–	0.4	0.7
Amortisation of intangible assets	0.3	0.3	0.6
Loss on disposal of fixed assets	0.1	–	0.3
Loss on disposal of discontinued operations	–	0.3	0.4
Interest payable	0.2	0.2	0.5
Operating cash flow before working capital changes and non-recurring or special items	1.4	0.8	2.1
Decrease/(increase) in trade and other receivables	1.7	(0.3)	(0.6)
Decrease in inventories	0.6	0.5	0.7
(Decrease)/increase in trade payables	(1.8)	1.3	0.2
Payments for non-recurring and other special items	(0.8)	(2.7)	(4.5)
Other non-cash movements	(0.1)	(0.1)	(0.1)
Cash generated/(absorbed) by operations	1.0	(0.5)	(2.2)
Interest paid	(0.2)	(0.2)	(0.5)
Taxation received	–	0.3	0.4
Net cash inflow/(outflow) from operating activities	0.8	(0.4)	(2.3)
Investing activities			
Purchase of property, plant and equipment	(0.1)	(0.3)	(0.7)
Purchase of intangible assets	(0.4)	(1.4)	(2.4)
Disposal of business	–	1.2	2.3
Net cash used in investing activities	(0.5)	(0.5)	(0.8)
Cash flows from financing activities			
(Decrease)/increase in bank loans	(3.3)	1.1	2.9
New finance leases	–	0.3	0.2
Payment of hire purchase and finance liabilities	(0.1)	(0.3)	(0.4)
Proceeds from share issue	3.3	–	–
Expenses on share issue	(0.3)	–	–
Net cash generated from financing activities	(0.4)	1.1	2.7
Net (decrease)/increase in cash and cash equivalents	(0.1)	0.2	(0.4)
Cash and cash equivalents at the beginning of period	0.8	1.2	1.2
Cash and cash equivalents at the end of period	0.7	1.4	0.8

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

Notes to the unaudited interim results to 31 July 2014

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 ended 31 January 2014. 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. Segmental sales information

Geographic	Half year to 31 July 2014 £m	Half year to 31 January 2014 £m	Half year to 31 July 2013 £m	Year to 31 January 2014 £m
United Kingdom	9.7	10.4	10.2	20.6
Rest of Europe, Middle East & Africa	6.2	6.5	6.2	12.7
Asia Pacific	2.5	3.0	2.7	5.7
Americas	3.7	3.8	3.5	7.3
Total	22.1	23.7	22.6	46.3

Product segment	Half year to 31 July 2014 £m	Half year to 31 January 2014 £m	Half year to 31 July 2013 £m	Year to 31 January 2014 £m
Connectivity	13.1	14.4	12.6	27.0
Instrumentation, Monitoring & Control	7.9	8.3	8.9	17.2
Materials	1.1	1.0	1.1	2.1
Total	22.1	23.7	22.6	46.3

Notes to the unaudited interim results

to 31 July 2014
continued

3. Non-recurring or special items

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

	Half year to 31 July 2014 £m	Half year to 31 July 2013 £m	Year to 31 January 2014 £m
Strategic review and banking advisory costs	0.5	0.2	0.4
Share issue costs	0.3	–	–
IFRS 2 charge	0.1	0.1	0.2
Amortisation of acquired intangible assets	0.1	0.1	0.2
Restructuring costs			
Tunisia	–	1.3	1.4
UK	–	0.4	0.9
Redundancy costs	–	–	0.4
Impairment			
Goodwill	–	–	1.1
Acquired intangible assets	–	–	0.4
Total	1.0	2.1	5.0

4. Taxation

The tax credit/(charge) on loss from continuing operations before taxation has been estimated at a rate of nil (July 2013: 13.0% credit, January 2014: 8.2% credit).

5. Discontinued operations

Discontinued operations comprise Total Carbide Limited (sold on 12 June 2013) the Sifam brand and the manufacturing subsidiary Elektron Components (Shenzhen) Ltd (sold on 21 October 2013) and the Tinsley brand (activities discontinued during the period to 31 July 2013).

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

	Half year to 31 July 2014 £m	Half year to 31 July 2013 £m	Year to 31 January 2014 £m
Revenue	–	2.9	3.4
Expenses	–	(3.0)	(3.7)
Non-recurring or special items	–	(0.4)	(0.7)
Loss before tax	–	(0.5)	(1.0)
Attributable tax expense	–	–	–
Loss on disposal of discontinued operations	–	(0.3)	(0.4)
Attributable tax expense	–	–	–
Net loss from discontinued operations attributable to equity shareholders	–	(0.8)	(1.4)

Notes to the unaudited interim results

to 31 July 2014
continued

6. (Loss)/earnings per share

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

(Loss)/earnings

	31 July 2014 £m	31 July 2013 £m	31 January 2014 £m
(Loss)/earnings from Continuing Operations			
(Loss)/earnings for the purposes of the basic (loss)/earnings per share being net profit/(loss) attributable to the owners of the Company	(0.6)	(2.0)	(5.3)
Adjustment in respect of non-recurring or special items net of taxation of nil (July 2013: £0.3m, January 2014 : nil)	1.0	1.8	5.0
Earnings/(loss) for the purposes of adjusted earnings/(loss) per share	0.4	(0.2)	(0.3)

	31 July 2014 £m	31 July 2013 £m	31 January 2014 £m
(Loss)/earnings from Continuing and Discontinued Operations			
Loss for the purposes of the basic earnings per share being net profit attributable to the owners of the Company	(0.6)	(2.8)	(6.7)
Adjustment in respect of non-recurring or special items net of taxation of nil (July 2013: £0.3m, January 2014 : nil)	1.0	2.5	6.1
Earnings/(loss) for the purposes of adjusted earnings per share	0.4	(0.3)	(0.6)

Number of shares

	31 July 2014	31 July 2013	31 January 2014
Weighted average number of ordinary shares for the purposes of basic earnings per share	115,498,780	104,450,615	104,450,615
Effect of dilutive potential ordinary shares: Share options	–	1,503,397	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	115,498,780	105,594,012	104,450,615

(Loss)/earnings per share

	31 July 2014	31 July 2013	31 January 2014
From Continuing Operations			
Basic and Diluted EPS	(0.5)p	(1.9)p	(5.1)p
Adjusted and Diluted adjusted EPS	0.3p	(0.2)p	(0.3)p
From Continuing and Discontinued Operations			
Basic and Diluted EPS	(0.5)p	(2.7)p	(6.4)p
Adjusted and Diluted adjusted EPS	0.3p	(0.3)p	(0.6)p

Notes to the unaudited interim results

to 31 July 2014
continued

7. Cautionary Statement

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

The report contains indications of likely future developments and other forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. Key risks and their mitigation have not changed materially in the period from those disclosed on pages 11 to 13 of the annual financial statements for the year ended 31 January 2014.

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

8. Other information

The financial information in this statement does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial information in respect of the year ended 31 January 2014 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Copies of the interim results are available to download from the Group's website www.elektron-technology.com.

Directors, management and advisers

Keith Daley

Chairman

John Wilson

Chief Executive Officer

Andy Weatherstone

Chief Financial Officer

Tony Harris

Independent
Non-Executive Director

Ric Piper

Senior Independent
Non-Executive Director

Company Secretary

Martin Reeves
BA Hons, FCIS

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