elektron technology

Elektron Technology plc

Annual Report and Accounts 2019

Elektron Technology is a global technology group that conceives, designs and markets products and services that connect, monitor and control.

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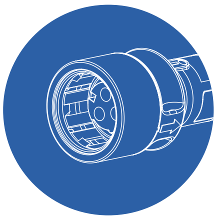
BUSINESS SEGMENTS



Bulgin

Widely recognised as a leading provider of environmentally sealed connections and critical components, with over 95 years of experience.

Bulgin is a comprehensive provider of engineered solutions to meet the needs of industry.

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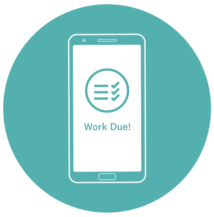

Checkit

Real-time operations-management platform that connects people, policy and processes to ensure the right things get done in the right places, at the right time.

Checkit provides workforce management, automated monitoring and operational insight.

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Elektron Eye Technology (EET)

Henson 9000/7000 visual field scanners for glaucoma screening and management.

MPS II macular pigment screening for early detection and ongoing monitoring of age related macular degeneration.

Real-time operations management

checkit

"With Checkit we can now reinvest saved time of over 20,000 person hours/year back into the business, improving controls and training people."

Gavin Riley
Food, Beverage and Retail Manager
Center Parcs

Find out more online

www.elektron-technology.com
www.bulgin.com
www.checkit.com
www.elektron-eye-technology.com

GROUP HIGHLIGHTS

Net cash (£m)

£10.1m

2018: £5.2m

Group revenue from continuing operations (£m)

£33.7m

2018: £29.8m

Operating profit from continuing operations (£m)

£4.6m

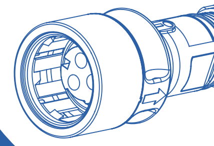
2018: £2.6m

Earnings before interest, taxation, depreciation and amortisation (EBITDA) (£m)

£6.8m

2018: £5.1m

- Group revenues from continuing operations of £33.7m (2018: £29.8m), an increase of 13.1%, with growth in all three businesses.
- Operating profit from continuing operations of £4.6m, up 77% (2018: £2.6m).
- EBITDA (earnings before interest, taxation, depreciation and amortisation) on continuing operations of £6.8m, up 33% (2018: £5.1m).
- Queensgate Nano was disposed of during the year for £1.4m. The consideration was split between an initial £0.8m for the trade and assets and a further £0.6m generated from earn out payments, of which £0.4m was received before the year end and £0.2m shortly after the year end.
- Net cash at year end of £10.1m (2018: £5.2m).
- The Group continues with its strategy of investing a substantial proportion of Bulgin operating cash flow into Checkit in view of the outstanding opportunities which the Board believes that the business offers.
- Acquisition post year end of Next Control Systems for a net consideration of £8.8m, satisfied wholly in cash, provides an opportunity to accelerate the scaling of Checkit.



Bulgin

- Sales of £30.1m, up 10.3%, with operating profits of £9.0m, up 25% (2018: £27.3m and £7.2m respectively).
- Focus on continuing sales growth whilst maintaining class-leading margins. This has resulted in a sales increase of c.10% and net operating margins increasing to 30% with over 300% ROCE (return on capital employed).
- Bulgin has made a strong start to the new financial year with sales in the first quarter nearly 20% ahead of the same period last year. Whilst growth rates are expected to moderate towards market growth rates during the second quarter Bulgin sales are expected to be well ahead at the half year. Bulgin's visibility now extends to around twelve weeks and whilst management is cautious of macro-economic conditions, it is expected that Bulgin will continue to trade ahead of previous expectations.

Read more on page 14 »

Checkit

- Sales of £1.0m, a 100% increase over the previous year, with operating loss of £4.5m which is within budget (2018: £0.5m and loss of £4.4m respectively).
- There is a strong pipeline of opportunities and management is focused on converting these into revenues.
- Greater emphasis is being placed on developing non-food markets and building the US infrastructure to drive adoption.
- Integration of Next Control Systems is a key priority, with initial focus on leveraging the cross-selling opportunities the acquisition presents.

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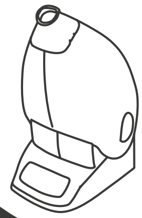
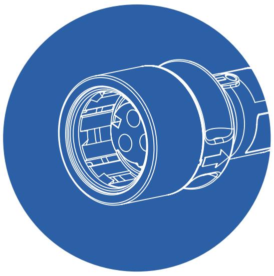


Elektron Eye Technology

- Sales of £2.6m, up 30% and return to profitability with operating profit of £0.1m (2018: £2.0m and loss of £0.2m respectively).
- Management focus is on increasing distribution sales, with emphasis on USA and Europe.
- Considered non-core to the longer-term Group strategy, the business is currently being marketed for sale.

BUSINESS SEGMENTS

Bulgin



Key products

- Bulgin is widely recognised as a leading provider of environmentally sealed connectors and critical components, with over 95 years of experience in the industry.
- Comprehensive provider of engineered solutions to meet the needs of the industry.

Group sales (%)

89% 2018: 91%

Sales (£m)

£30.1m 2018: £27.3m

Operating profit (£m)

£9.0m 2018: £7.2m

EBITDA (£m)

£9.4m 2018: £7.9m

Checkit

Key product

- Real-time operations management platform for automated monitoring, workforce management and operational insight, using Internet of Things (IoT) software applications, smart sensors and cloud analytics.

Group sales (%)

3% 2018: 2%

Sales (£m)

£1.0m 2018: £0.5m

Operating loss (£m)

£(4.5)m 2018: £(4.4)m

EBITDA (£m)

£(2.8)m 2018: £(2.7)m

Elektron Eye Technology

Key products

- Henson 9000/7000 visual field screeners for glaucoma screening and management.
- MPS II macular pigment screener for early detection and ongoing monitoring of age related macular degeneration.

Group sales (%)

8% 2018: 7%

Sales (£m)

£2.6m 2018: £2.0m

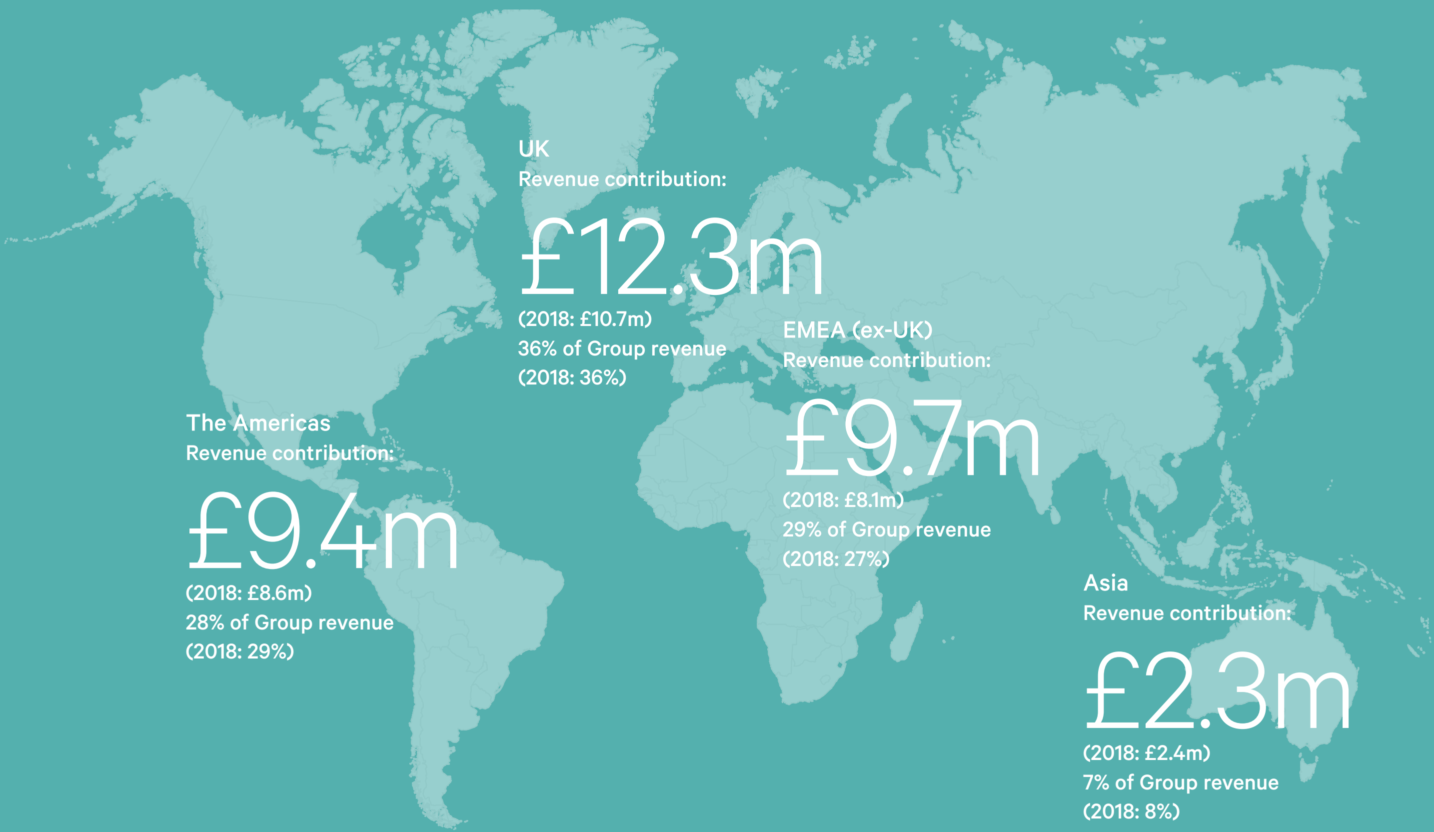
Operating profit/(loss) (£m)

£0.1m 2018: £(0.2)m

EBITDA (£m)

£0.2m 2018: £(0.1)m

GLOBAL SALES

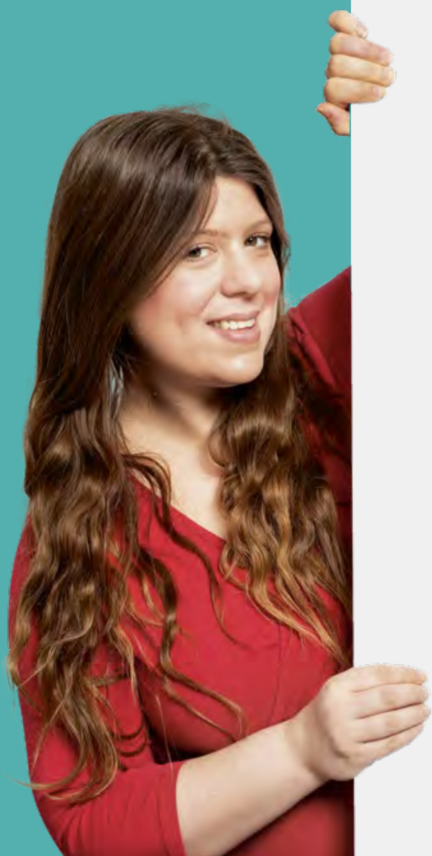


UK
Revenue contribution:
£12.3m
(2018: £10.7m)
36% of Group revenue
(2018: 36%)

EMEA (ex-UK)
Revenue contribution:
£9.7m
(2018: £8.1m)
29% of Group revenue
(2018: 27%)

The Americas
Revenue contribution:
£9.4m
(2018: £8.6m)
28% of Group revenue
(2018: 29%)

Asia
Revenue contribution:
£2.3m
(2018: £2.4m)
7% of Group revenue
(2018: 8%)



Approximately 92,000 end users

Network spanning over 125 countries

Checkit installed over 600 sites, up 75%

DOUBLE-DIGIT REVENUE GROWTH AS OPERATING PROFIT INCREASED 77%

Group overview 2019

Elektron Technology group performance further improved in 2019:

£m	2019	2018	Change
Group sales	**33.7**	29.8	+13%
EBITDA	**6.8**	5.1	+33%
Operating profit	**4.6**	2.6	+77%
Cash	**10.1**	5.2	+94%
Technical spend expensed	**1.3**	1.5	-13%
Technical spend capitalised	**1.5**	1.1	+36%
Total technical spend	**2.8**	2.6	+8%

During the year the Group disposed of its Queensgate Nano business, resulting in the following portfolio of businesses:

» Bulgin – a highly cash-generative leading provider of engineered solutions.

» Checkit – a real-time operations management Internet of Things (IoT) software application using smart sensors and cloud analytics, with high-growth potential.

» Elektron Eye Technology (EET) – a developer of ophthalmic instruments.

Group strategy: to invest in technologies that accelerate the fourth industrial revolution

The Board's strategy is to:

» Maximise shareholder value based on the many opportunities that Bulgin's best-in-class process and performance present, whilst continuing to transform Bulgin from a manufacturer of components to a leading provider of engineered solutions. Bulgin is a world class business with exceptional cash generation characteristics and good growth prospects due to increasing demand for smart components across a wide range of industries (including agriculture, automotive, energy, industrial and marine) where "Industry 4.0" digital transformation is accelerating.

» Develop Checkit's capabilities to become a global leader in the potentially huge market of real-time operations management. Checkit's strategy comprises:

  » new product development;

  » entry into potentially lucrative geographic markets such as the USA, where Checkit was launched in the year; and

  » expansion into new vertical sectors (beyond food and beverage).

» The EET business is non-core and the Group will look to sell in due course.

Organic growth will be supplemented by acquisitions where suitable opportunities arise. In May 2019, the Group purchased Next Control Systems, which improves productivity and profitability for clients in sectors including healthcare, life sciences, building and energy management systems (BEMS). Next Control Systems will be combined with Checkit to help client organisations run better, by connecting data, things and people.

Summary of operating businesses

Bulgin: transformation to a leading provider of engineered solutions

£m	2019	2018	Change
Sales	**30.1**	27.3	+10.3%
EBITDA	**9.4**	7.9	+19.0%
Operating profit	**9.0**	7.2	+25.0%

Bulgin continued to grow, demonstrating:

» sustained double-digit revenue growth;

» underlying net margin of 30%; and

» ROCE of 300%.

The headline financials of Bulgin illustrate the progress made in transforming the business from a manufacturer of components to a leading provider of engineered solutions. Orders and sales for the period were both at record levels of £32.0m and £30.1m respectively and c.10% ahead of prior year, benefiting from distribution sales growth, end user growth and new product introductions. Following the distribution agreement with Arrow Electronics, in Q1 2018, stocking orders of £630k were received during the year which has further increased Bulgin's access to end users.

As previously outlined, Bulgin's transformation has been driven by a multi-faceted three-stage strategy over a six year period:

» simplification of the overall product offering including SKU (stock keeping unit) rationalisation, transition of small direct accounts to distribution and rationalisation of the distribution channel;

» optimisation of sales and development for market requirements by focusing sales resource on the entire Bulgin product range, initiating co-marketing campaigns with distributors and aligning new product development programmes with technology and market trends; and

» growth of higher margin product lines.

With the first two phases predominantly complete during 2017, the second year of the "Growth" strategy delivered, as expected, further revenue growth, very high margins and ROCE for a manufacturing-based business. This has been achieved through relentless management focus on three areas:

1. Highly efficient, high-yield new product development (NPD)
During 2019, Bulgin launched nine new products encompassing ruggedised switches, connectors, fibre connectors and ruggedised sensors. Bulgin invests approximately 1% of revenue on NPD, yet approximately 10% of sales in 2019 were derived from products launched within the last three years.

2. Channel reach
The number of discrete end users buying Bulgin product through distribution increased by 14% from c.81,000 in 2018 to over 92,000 in 2019. The opportunity offered by direct access, via our distributors, to these customers presents a tremendous growth opportunity as these accounts are penetrated more deeply and Bulgin's product offering continues to grow.

3. Distributor management and support
Over 90% of Bulgin sales are now through distribution. Bulgin continues to utilise data analytics to manage distributors to ensure that:

» distributors hold appropriate levels of inventory to support current and future customer demand across all geographies;

» distributors are incentivised, through margin attainment, to push Bulgin products and related initiatives; and

» end users/customers are provided with technical support and marketing collateral.

Elektron invested £2.8m in product development in 2019.

Summary of operating businesses continued

Bulgin: transformation to a leading provider of engineered solutions continued

Capitalising on "Industry 4.0" market opportunity
Bulgin is well placed to capitalise on the growth in ruggedised fibre and sensor markets (c.15% market CAGR) driven by Industry 4.0 – the fourth industrial revolution – leveraging the adoption of computers and automation through enhancement with smart and autonomous systems fuelled by data and machine learning. Bulgin began investment in this area through development and launch of its M-series connector ranges (automation connectors) in 2018, generating in excess of £1.2m of sales to date. This has been followed by the launch of the smallest footprint field terminable fibre connector (4000 series) launched in 2019 that realised c.£220k of sales immediately post-launch, and the launch of a ruggedised photo-electric sensor (for packaging lines) at the year end.

Outlook: Bulgin's "design-in" philosophy and NPD strategy position the business for sustainable growth and attractive margins
An estimated 60% of Bulgin's product offering and over 90% of Bulgin's connector sales are "designed in" to system applications. This works to create an economic moat around the business, enabling strong margin evolution through barriers to entry and ensuring stickiness of revenue. This focus, coupled with strategic product launches (eight planned for 2020) and continued strong channel management, in conjunction with the sheer quantity and global scale of end users (more than 92,000 buying Bulgin product through distribution), demonstrates why Bulgin is well placed to deliver sustainable growth with continued high margins.

Checkit: delivering on the vision of real-time operations management

£m	**2019**	2018	Change
Sales	**1.0**	0.5	100%
LBITDA	**(2.8)**	(2.7)	(4%)
Operating loss	**(4.5)**	(4.4)	(2%)

2019: Checkit scales up its operations
Performance for the year was in line with the Board's expectations with revenue up 100% compared to the prior year and losses of £4.5m (2018: £4.4m). Cash expenditure was £4.1m (2018: £3.4m) which includes capitalised development costs of £1.3m (2018: £0.7m). The ongoing cash spend was driven by investment in sales and product development as well as initial start-up costs in the USA. Sales and marketing expenses were £1.5m (2018: £1.1m), an increase of 36%.

Contracted recurring revenues for the year represented 88% of sales with the remainder representing one-off sales of consultancy, services and hardware.

2019 saw strong orders in the first half, with a softening in the second half related to the UK food service market (the initial focus for Checkit).

What is the vision of real-time operations management?

Checkit's vision of real-time operations management is a future where organisations get the best from their data, things and people by easily connecting them into collaborative, process-based networks that adapt and react in real time. We are particularly excited by the "people" aspect of operations management and the opportunity of harnessing the social network in the workplace to get things done.

Checkit's current focus is on bringing digitisation to groups of workers who are mobile (not desk based) and typically have practical, hands-on roles in service and sales roles. These workers must perform many routine activities – some scheduled, some ad hoc – as part of their duties. The success of the business depends on how well and consistently these routine activities are performed, and how timely and effectively any problems are identified, addressed and learned from.

The potential is vast. Use cases exist across many vertical industries and across organisations of all sizes. While some processes are enabled by configuring and customising core business systems such as ERP, many are too varied and specific to be managed in this way. In response, Checkit has developed a platform that exploits cloud, mobile and Internet of Things (IoT) technologies to provide:

- **Work management:** intuitive, easy to use checklist applications for teams of busy, mobile users that are more than just simple tick boxes. Checkit applications provide guided remediation for users through steps and responses to inputs ("if this happens, do this") and can pull in data from the real world (e.g. temperature readings).
- **Automated monitoring:** sensors and monitoring that can replace routine measurements and checks, freeing up users for more productive tasks.
- **Operational insights:** data analytics and reporting that monitor the health of processes and identify opportunities for improvement or correction.

The acquisition of Next takes Checkit beyond monitoring and brings valuable domain knowledge of control systems.

Crucially, Checkit can be set up and customised without any software development or complex technical work or complex system integration. A business user can create and deploy a checklist or set up rules for monitoring in minutes. Checkit, its partners and customers can set up networks of users, processes and sensors to match a specific business need for any scale of requirement.

A selection of advances in the product in the financial year is given below:

By	With	Through	Customers
Making Checkit more powerful	Checkit operational insight	customisable business intelligence (BI) capability with set of key performance indicators (KPIs) supported by Checkit's consulting service	obtain the information that matters for their business
	Work management upgrades	document downloads and configurable escalation alerts and date checks	obtain the correct information and direct it to the correct person at the correct time to take the right action
	Targeted releases	capability to target early releases of Checkit app and Checkit automated monitoring to customer segments	permit early access to feature requests, improving customer experience and loyalty
	Checkit Cloud platform upgrades	improved scalability of the platform	permit deployment of more endpoints across more sites more quickly
	Hardware upgrades	broadened range of hot-hold sensors/ improved range of hubs and repeaters	can solve more monitoring challenges/gain increased flexibility for their installations
Making Checkit easier to use	Features and edition releases	capability to target and bundle features for different customer segments	receive the features they need for the business problems they need to solve
	Internationalisation	general international support in the Checkit platform software and US-specific Federal Communications Commission (FCC) hardware-certification programme approvals	gain assurance that Checkit will work in their local environment
Giving customers more choice	Checkit app	availability on a range of Android mobile devices	can bring your own device (BYOD)
Offering location-based task checks	Checkit checkpoint capability (scan-triggered, e.g. QR codes)	location-based enforcement of a task sequence through a building	improve assurance that a task has been completed at the correct time by the correct person, in the correct place
Improving verifiability and shareability of tasks	Checkit checks (photo capture)	sharing confirmations and best practices across teams	build brand trust with their own customers by demonstrating that tasks have been completed (sequentially) to quality and service-level standards

In response, the Board has taken the following steps to target additional markets and verticals and develop new product capabilities along a number of dimensions:

Elektron continues to invest significantly in Checkit product development to lead the market
The Group continued to invest heavily in Checkit's new product development (NPD) and sustaining engineering spending: £1.9m (2018: £1.4m), a 36% increase.

Adjusting the Checkit offering in existing customer industries
In 2019 Checkit launched a compliance consultancy service offering for food safety and health and safety (H&S), providing a one-stop service, based on our technology. The result is an offering aimed at SMEs that is more responsive and efficient than traditional modes of delivery.

Bringing Checkit to new sectors
Checkit is expanding its focus in three phases:

» entering **adjacent business sectors** that include food sales but also have significant other operational challenges. These include leisure and hospitality business (theme parks, resorts, bowling alleys, etc.), healthcare (patient services, facilities) and retailers;

» exploring applications in **new verticals** including pharma and professional services; and

» evaluating the elements of **generic/horizontal business processes** such as HR and audit.

Taking Checkit beyond the UK
In 2019 Checkit launched in the USA completing first sales in this new market and running pilot deployments in multi-site businesses. The initial launch focused on the proven customer industry of food service, especially in relation to managing operational processes across a number of distributed sites. This market remains buoyant and the initial response has been positive. To support this launch, Checkit internationalised its product.

Summary of operating businesses continued

Checkit: delivering on the vision of real-time operations management continued

Serving small businesses as well as enterprises

The millions of small businesses represent a further opportunity but building revenues in this segment will take time. The key to success is to minimise the effort and cost of adoption and in this regard the app and extending self-service options are key.

Deepening Checkit's distinctive capabilities

Checkit is differentiated from its competitors by its ability to manage, guide and act on events in real time. We are expecting this to take another leap forward during this year. We are developing a market-leading capability that will make structured work done using Checkit truly collaborative. The potential to improve work allocation in distributed teams is enormous.

Building the organisation to scale

As we scale up Checkit, our operational and support capability is crucial. To drive the development of this aspect of our business we have appointed a Director of Customer Success to manage customers through their life with Checkit. The Customer Success team is focused on:

- delivering successful pilots and trials;
- providing cost-effective, scalable education and training;
- providing industry-specific advice and knowledge;
- field engineering and installation; and
- online and phone customer support.

Elektron Eye Technology: sustained focus on distribution channel expansion

£m	2019	2018	Change
Sales	**2.6**	2.0	+30%
EBITDA	**0.2**	(0.1)	+0.3m
Operating profit	**0.1**	(0.2)	+0.3m

As a result of sustaining its focus on distribution channel expansion, EET sales grew 30% in 2019 delivering an operating profit of £0.1m compared with an operating loss of £(0.2)m in 2018. EET delivered H2 sales of £1.3m, matching H1 performance. As mentioned above this business is non-core and the Group is looking to sell the business.

Scaling Checkit operations into 2020: acquisition of Next Control Systems to create a global leader in real-time operations management

In line with its strategy the Group had been looking for a suitable acquisition to accelerate the growth of Checkit. In May 2019 the Group announced that it had acquired Next Control Systems Limited ("Next"), for a cash consideration of £10.5m (inclusive of £1.7m of cash in Next as at the date of completion). The price represents a multiple of 6.6x 2018 EBITDA and the deal is expected to be earnings accretive for Elektron in the current year.

This is a transformational deal for Checkit, immediately adding scale (by increasing turnover eight-fold) and one which the Board believes will significantly accelerate the path to profitability, with significant opportunities for further sales growth by:

- offering opportunities to cross-sell Checkit's work Management product to Next's customer base
- diversifying that customer base and extending the offering across additional sectors alongside the food service sector (which was previously the primary focus in Checkit);
- enhancing Checkit's existing range of sensors;
- bringing domain knowledge of the BEMS market;
- improving operational capability; and
- leveraging Next sales capabilities to improve Checkit organic growth in the UK and overseas.

Next is an excellent strategic fit for Checkit, providing technology and software that enable management teams to monitor, control and optimise business processes. Through its Tutela brand (www.tutelamedical.com), Next is a leader in high-end service-based temperature monitoring for healthcare and life sciences within the UK. In addition, through its Next and Axon brands (www.nextcontrols.com; www.axon.eco) it provides data related Building Energy Management System (BEMS) services. For example, Next has a major relationship with a leading UK retailer covering smart building and plant technologies in which Checkit has limited pipeline and hopes to expand and consolidate the relationship further through its other offerings. Next will be combined with Checkit to create a global leader in the field of real-time operations management.

People: Group commitment to continuously improve capabilities

The Board would like to express its sincere thanks for the hard work by our people across the Group during the year. The Board recognises the initiative, skill, drive and loyalty of its staff. As the Group deepens its Industry 4.0 presence, and relies on IoT and Cloud expertise to deliver client solutions, talent management becomes progressively more important.

The Group is committed to learn from, continuously improve and productise capabilities within the Group. Inputs to this process come from customers, sales and partner engagements and our own experience of employing Checkit in our own internal processes (in facilities management, HR tasks and our own customer engagement management processes).

The Group has moved away from its matrix management structure and is expected to complete this process in the current financial year. Each business will be contained within its own company and will be managed separately.

Outlook: momentum in core businesses maintains positive Group outlook for short, medium and long term

As announced in the Group's trading statement on 15 May 2019, the strong sales growth experienced by Bulgin throughout 2019 last year continued in the first quarter of 2020 with year-on-year sales growing 20%. Whilst, as expected, there has been some moderation of this growth in the second quarter of 2020, Bulgin is expected to deliver first half sales well ahead of the comparable period last year and for the full year. Bulgin's visibility now extends to around twelve weeks and whilst management is cautious of macro-economic conditions, it is expected that Bulgin will continue to trade ahead of previous expectations.

Checkit saw sales grow in the first quarter of 2020 over the comparable period last year by 49%. It was, however, impacted by customer trading problems in its original target market, the food service industry. We are now seeing an increasing number of enquiries for non-food applications. Checkit's transformational acquisition of Next Control Systems enables an acceleration of the move into adjacent verticals with scale, accelerating the route to profitability. The Board is excited about the potential of the combined business. Management is focused on ensuring the two businesses are successfully integrated which will lay the foundations for strong future growth.

EET sales fell 11% during the first quarter of 2020; however, EET had been up against very strong sales growth of 76% in the comparable period. As stated in the Group strategy section (above) this small subsidiary is non-core and the Group will look to sell in due course.

The Group's ethos, strong product and development capabilities, expanded market opportunity, increased sales scope and growing customer support resources – together with the acquisition of Next Control Systems – provide a strong platform to continue growth through the current financial year and beyond. Consequently, the Board retains its positive outlook for 2020 and for the medium to long-term prospects of the Group.

Keith Daley
Executive Chairman

John Wilson
Chief Executive Officer
26 June 2019

"This acquisition significantly enhances the Checkit value proposition in its capabilities, services and demonstration of scale. We look forward to realising the many opportunities offered by the combination of Checkit and Next Control Systems."

Keith Daley
Executive Chair of Elektron Technology

CREATING SUSTAINABLE, LONG-TERM VALUE

Our approach to running our business is to identify and then manage the key issues for the Group's continued success. These include innovation, strong and effective risk management, maintaining high standards of governance and transparency and developing a multi-disciplined and diverse entrepreneurial team all with the aim of delivering value to all of our stakeholders.

1 Innovate for growth

Continual investment in NPD to create a high growth product portfolio.

Key activities

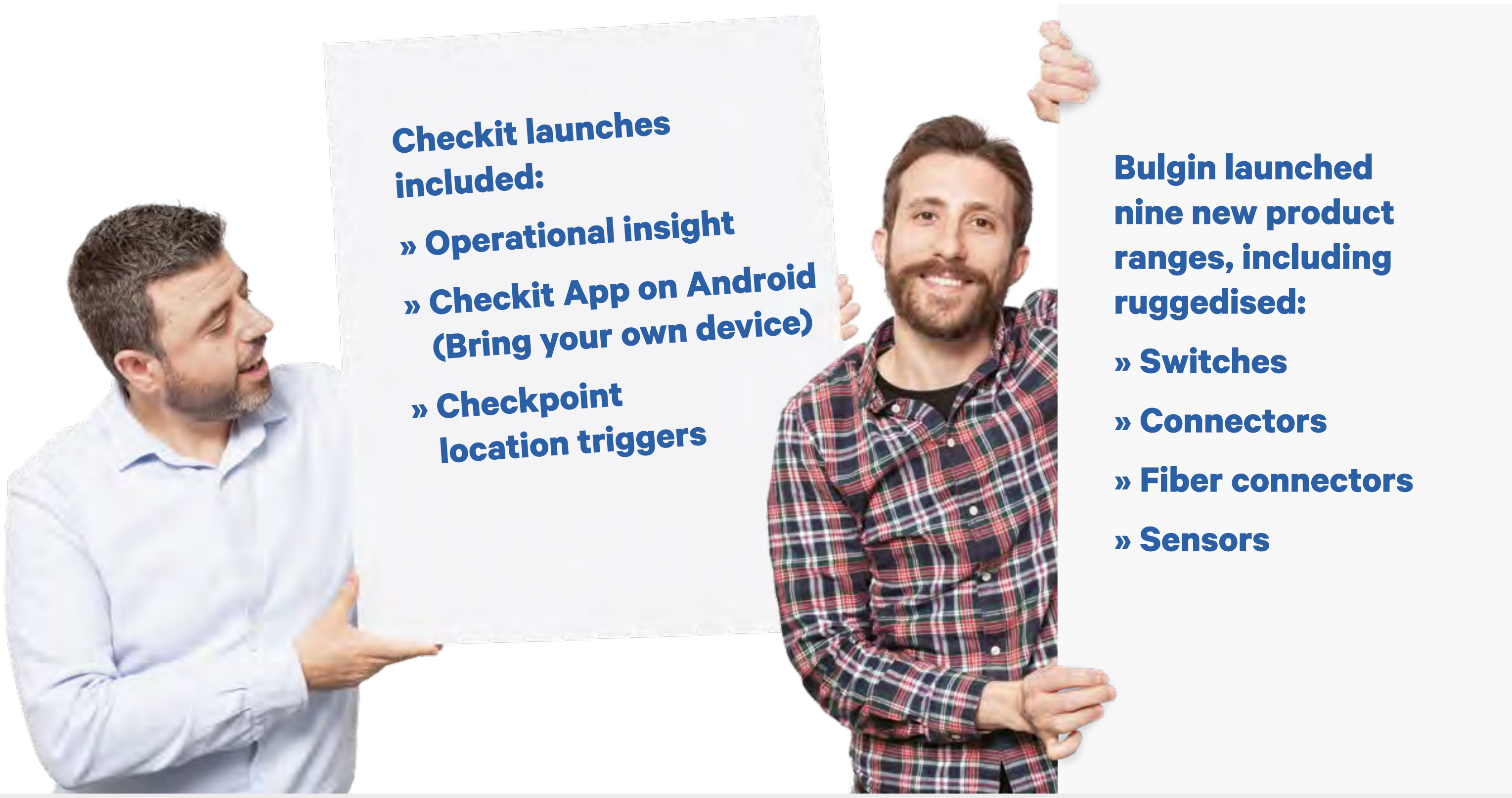
- Established engineering team in Cambridge Technology Centre.
- Developed multi-year investment programme for core products.
- Annual new product introductions planned.

Our 2019 progress

- Invested £2.8m on product development.
- Launch of nine new Bulgin product ranges including rewireable fibre connectors and capacitive sensor switches.
- Launch of Checkit app.

Our future priorities

- Bulgin's continued focus on sales "designed-in" to system applications coupled with strategic production launches (eight planned for 2020).
- Regular releases of upgrades for Checkit including teamwork synching for real-time work management.
- Integration of Next Control Systems to unlock technology synergies with Checkit.



2 Focus resources for success

Invest selectively in products with the highest profit and growth potential and look for good fit acquisitions to accelerate scale and growth.

Key activities

- Maximise the existing portfolio for profit, return on capital and growth potential.
- Continue focus on lean manufacturing processes and effective management of supply chain.
- Define Checkit product development roadmap.
- Identify suitable earnings accretive acquisitions for its core businesses.

Our 2019 progress

- Bulgin operating net margin improved to 30%.
- New product launches made as planned.
- Portfolio rationalisation – Queensgate Nano sold in February 2018.

Our future priorities

- Purchase of Next Control Systems completed in May 2019.
- Continue to invest in products that are capable of substantial growth using operational cash flow generated from Bulgin.
- Complete rationalisation of the portfolio through the sale of EET.

3 Invest in infrastructure, people and capabilities

Create a scalable organisation to sustain growth, whilst ensuring safe procedures and operations for our people.

Key activities

- Capable multi-tiered leadership team and skilled workforce.
- Single global enterprise resource planning (ERP) system used by all operations.
- Ancillary systems (customer relationship management (CRM) and analytics) and robust global networks substantially in place.

Our 2019 progress

- Further expansion of software engineering team.
- Expansion of our CRM analytics with key business partners.

Our future priorities

- Retention of key skills in a competitive environment, by ensuring a challenging and rewarding work environment.
- Develop a fully integrated e-commerce and operating system for subscription-based billing.

bulgin

WATER FOUNTAINS AND CUSTOM SOLUTIONS

Bulgin has a key focus in application-specific connectivity, with an estimated market size of c.£12bn in 2021. Over the last five years since offering this service, Bulgin has seen c.15% CAGR in the sales of application specific products and expects this to accelerate.

A key example of this work with recent success is in a highly sophisticated integrated fountain display, integrating music, lighting and water effects. Bulgin's standard product stood up against the competition, to be the only viable solution for the customer.

The customer had a competitor's system under test which could not stand up to the harsh environment it was required to function in. As a result, Bulgin was approached to replace the competitor's failing system in a very large water fountain display in California.

> "Bulgin's standard product specifications have a ten times safety factor designed in."

Bulgin's standard product was placed under test against the competition in an extremely corrosive environment, due to the chemicals used in the fountain display tanks. The test assembly consisted of Bulgin's 6000 series and 900 series connectors powering the water motors and lighting. At the conclusion of the test period, Bulgin's product was the sole product that continued to be functional. Even the bolts that hold the tank together had corroded. Due to the superior performance of Bulgin's standard product, Bulgin was then commissioned to design a custom solution for the customer.

The results

In the majority of cases Bulgin's standard product specifications have a ten times safety factor designed in which provides exceptional performance in the environments they are designed into. Due to the superior specifications of Bulgin's standard product, Bulgin was then approached to design a custom solution for the customer.

Since the connection solution was not available as standard on the market, Bulgin worked with the customer directly to design this with them. The product was a 90A connection with extremely short back shells, not typically seen in the market due to creepage and clearance distances required to prevent connection shorts and ultimately a failing connection. These specification points, coupled with the sealing arrangements required in order to meet the customer's tank tests, meant for a challenging development for the team.

This was a completely new development for Bulgin and using the design know-how and internal IP of the engineering teams in Cambridge, Bulgin was able to deliver the bespoke solution for approval by the customer. Due to the nature of how Bulgin develops new products, the period from concept to final product delivery was industry leading and enabled the customer to finalise the system well before its product launch date.

The customer now uses a total of five different Bulgin product lines, including the custom solutions which continue to outperform in its systems. This approach establishes entrenched and sticky customer relationships to become the sole source supplier and trusted deliverer of complex connectivity solutions.

£12bn

Estimated market size in 2021

15%

CAGR in sales of application products

5

Bulgin product lines in use

BULGIN LAUNCHES THE WORLD'S SMALLEST RUGGED FIBRE OPTIC CONNECTOR

Entering the fibre optic market

The fibre optic market is worth an estimated £2.4 billion.

Bulgin has entered the lucrative fibre optic market by launching the world's smallest rugged fibre optic connector in 2018. As the smallest rugged optical connector available on the market, the 4000 Series Fibre Simplex connector is ideal for outdoor broadcast, FTTX (fibre to the x), server room engineering, civil engineering, marine, aviation and rail applications.

The connector's small form factor is particularly useful where installation space is limited or multiple connectors need to be accommodated.

Bulgin's 4000 Series Fibre connector accommodates industry standard LC interfaces as per IEC 61754-20. Once fully assembled, the fibre connection is UV resistant, salt spray resistant and sealed to IP68 and IP69K, protecting it not only from dirt, dust and temperature extremes (-25 to 70°C), but also allowing the housing to be completely immersed in up to 10m of water for up to two weeks.

Choosing reliable optical fibre connectors that are impervious to water, dust, temperature and shock ultimately offers a return on investment when considering the security of the connection and the minimisation of dirt and grease contamination, offering potential savings on downtime and field maintenance.

The ability to install these rugged connectors anywhere without the need to build bulky enclosures around them is a game changer, ultimately shifting the potential for LC connectors from the safety of server rooms and exchange boxes to almost any environment in the world.

-25 / 70°C
Wide operational temperature range

0.2dB
Insertion loss max

<0.1dB
Insertion loss average

IP68
Protection rating

Server rooms

A choice of cable terminations from standard server room LC fibre connections to sealed connections

FTTx

A fibre connector with IP68 ratings and UV resistant materials, the 4000 series fibre is suited to last drop fibre to the home and the antenna

Marine

Fibre connectivity with salt spray resistance to EN60068-2-52 Test Kb Salt Mist (Cyclic) Marine Severity Level 1

Civil engineering

Reliably connecting sensing equipment in the field in the harshest of environments

checkit

CHECKIT REAL-TIME OPERATIONS MANAGEMENT ENSURES THE RIGHT PEOPLE DO THE RIGHT THING, IN THE RIGHT PLACE, AT THE RIGHT TIME

CenterParcs

Checkit is helping Center Parcs save over 20,000 hours of staff time every year while giving managers unprecedented control and visibility.

“Checkit was chosen not only because it provides a single-vendor solution, from temperature monitoring to food safety, but because it can also scale to our needs. This allows us scope to diversify into front-of-house and business intelligence reporting. It is a partnership with a bright future.

“We can now reinvest saved time back into the business, improving controls and training people.”

Gavin Riley
Food, Beverage and Retail Manager, Center Parcs

NHS
The Leeds Teaching Hospitals
NHS Trust

When the Blood Sciences department at Leeds Teaching Hospitals NHS Trust needed an end-to-end temperature monitoring solution, Checkit was just what the doctor ordered.

“We are able to anticipate potential failures of fridges and freezers by reviewing temperature trends using the Checkit software, meaning we do not lose expensive stock in the event of a rare device failure and have the option to transfer items in this scenario.”

Richard Liversidge
Blood Sciences Service Lead,
Leeds Teaching Hospitals NHS Trust – Blood Sciences

sodexo

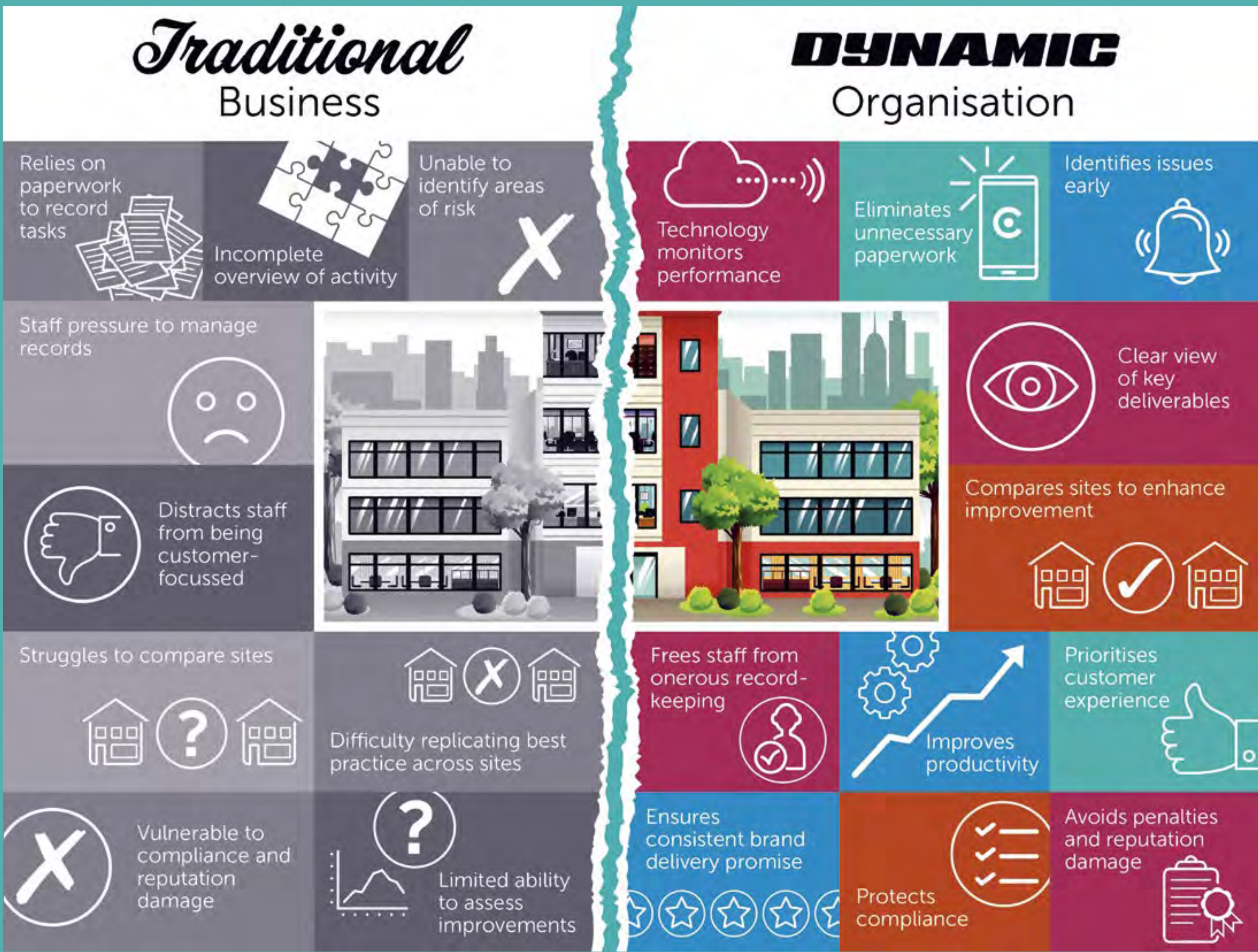
Sodexo Justice is rehabilitating offenders with Checkit, by providing them with digital skills to improve their employability, for the benefit of all.

“Checkit has saved us at least 80% more time, especially with the temperature-monitoring checks and reporting.

“Our goal is to improve quality of life. It is very important that we safeguard our staff and the people we serve, delivering the best possible service to our customers, and having partners like Checkit has contributed directly to this mission.”

Stenia Walker
Deputy Group Head, Safety and Risk, Sodexo

A SMARTER WAY TO BOOST OPERATIONS MANAGEMENT



Checkit is used at every level of an organisation, linking policy and processes to work as it happens in real time.

For **frontline staff**, Checkit automates and guides their activities, improving efficiency and consistency.

For **supervisors**, it automatically allocates and schedules work, making exceptions and issues easy to handle.

For **managers**, it creates broad control and consistency, providing continual insights across the business.

Into 2020:

How Next Control Systems will add scale and domain expertise to Checkit

By measuring and monitoring data from buildings, assets and things, Next Control Systems brands:

» drive productivity through operational, asset management and energy cost reduction strategies;

» protect business-critical assets (buildings, medical or food based);

» improve environmental efficiency; and

» assure quality and brand reputation through compliance,

all supported by a real-time, data-driven "prove it" approach to return on investment.

Next Controls

Enables and supports smart-building technologies

Next Controls delivers building and energy management systems (BEMS) and smart building solutions that provide:

» ease of integration (at the enterprise level, across suppliers), reducing the need for site-based engineering support; and

» ease of use, through providing a "common view" in an online dashboard, which combines and visualises data sets, reducing training costs.

"John Lewis reduced electrical consumption by 11% and carbon emissions by 12% in branches using Next Controls."

John Lewis: sustainable carbon savings through continuous monitoring, measuring and modelling

Enables businesses to manage globally, act locally

"Next Control Systems currently analyses 5.75 billion data points and remotely triage in excess of 750,000 events annually from the 1,220 connected buildings to their cloud based platform."

Axon

Delivers actionable insights to improve building asset performance

Axon offers an analytics platform and consultancy that provides strategic and tactical insight into building management operations:

- for building managers and operators to predict and pre-empt performance issues that degrade a building's operational efficiency and energy performance;
- for specialist asset managers to monitor and report asset performance including heating, ventilation and air conditioning (HVAC), refrigeration and energy – continuously; and
- for building owners to take informed, long-term planning decisions about future building service developments and project cost estimates.

"The Axon platform identified nearly 2 million kWh of annual energy savings for Broadgate Estates across its multiple estates in London."

Broadgate Estates: achieved return-on-capital investment in 17 months

Tutela

Delivers temperature and data monitoring insights worldwide

Tutela enhances compliance, reduces inventory loss, saves money, and improves patient outcomes in healthcare and medicines management and research (life sciences, biotech). Through secure, real-time monitoring, analysis and reporting, customers gain peace of mind that critical biological inventory is compliant, reducing loss of valuable product.

"Remote monitoring hardware on wards was easy to integrate with central pharmacy monitoring, and provides a consolidated picture across multiple sites through the web-based interface."

Royal Berkshire NHS Trust

FINANCIAL REVIEW

Introduction

The financial results for 2019 reflect another year of strong organic growth in Bulgin, further progress at Checkit, including the completion of the acquisition of Next Control Systems (see Note 28 for more information) after the year end, and a return to profitability of EET.

Continuing operations

Group revenue from continuing operations for the year increased by 13% to £33.7m (2018: £29.8m). This was principally as a result of a c.10% increase in Bulgin mainly due to the continued focus on improving product mix and margin, helped by the launch of a number of new product ranges.

Checkit revenue doubled to £1.0m (2018: £0.5m). Recurring revenues made up 88% of Checkit revenue (2018: 85%).

EET sales increased by 30% to £2.6m (2018: £2.0m) as a result of growing the distribution network in Europe for the MPSII product and strong demand for Henson products through EET’s largest UK distributor driven by a number of end user upgrade programmes.

Group EBITDA increased by £1.7m (33%) to £6.8m (2018: £5.1m) and is further analysed below together with cash generated/(used) after capital expenditure by the continuing businesses.

Bulgin

Bulgin’s high margin growth and low capital investment model generate significant cash inflows to fund, in part, the continued investment in Checkit. The Group, which has its main Bulgin manufacturing and assembly site in Tunisia, was able to benefit from the devaluation of the Tunisian Dinar which helped reduce operating costs by £0.6m. This contributed to operating margins increasing from 26.3% to 29.9% and EBITDA increasing from 28.9% to 31.2%. Capital expenditure in Bulgin was double that of the previous year due to the upgrade of moulding capacity in Tunisia.

Checkit

Checkit’s operating loss was in line with the previous year, although as previously indicated its cash outflow increased by £0.7m to £4.1m. Additional investment was made in delivering the product development roadmap, sales capabilities and marketing.

EET

The 30% increase in sales enables EET to deliver a small profit and generate a modest amount of cash compared to losses and a significant absorption of cash in the prior year, the latter due to completion of a number of product development features in 2018 to facilitate further growth opportunities.

The resultant Group operating profit amounted to £4.6m, up 77% compared to a profit of £2.6m in the previous year.

	2019				2018			
	Operating profit/(loss) £m	**EBITDA £m**	**Capital expenditure, including IP purchase £m**	**Cash generated/ (used) before working capital £m**	Operating profit/(loss) £m	EBITDA £m	Capital expenditure, including IP purchase £m	Cash generated/ (used) before working capital £m
Bulgin	**9.0**	**9.4**	**(0.8)**	**8.6**	7.2	7.9	(0.4)	7.5
Checkit	**(4.5)**	**(2.8)**	**(1.3)**	**(4.1)**	(4.4)	(2.7)	(0.7)	(3.4)
EET	**0.1**	**0.2**	**(0.1)**	**0.1**	(0.2)	(0.1)	(0.7)	(0.8)
	4.6	**6.8**	**(2.2)**	**4.6**	2.6	5.1	(1.8)	3.3

Discontinued operations

Discontinued operations in 2019 related solely to Queensgate Nano which generated a profit after taxation of £0.3m (2018: loss of £0.1m), after profits realised from its disposal of £0.4m (2018: £0.6m), with an attributable tax expense on disposal of £0.1m (2018: £nil).

Queensgate Nano was sold on 15 February 2018 for an initial £0.8m and a further £0.6m earned subsequent to its sale as a result of the business achieving certain sales targets, £0.4m of which was received in the year and £0.2m of which was received shortly after the year end.

A further £0.1m deferred consideration was received in respect of the Group's sale of Agar Scientific in 2016, leaving £0.1m to be received.

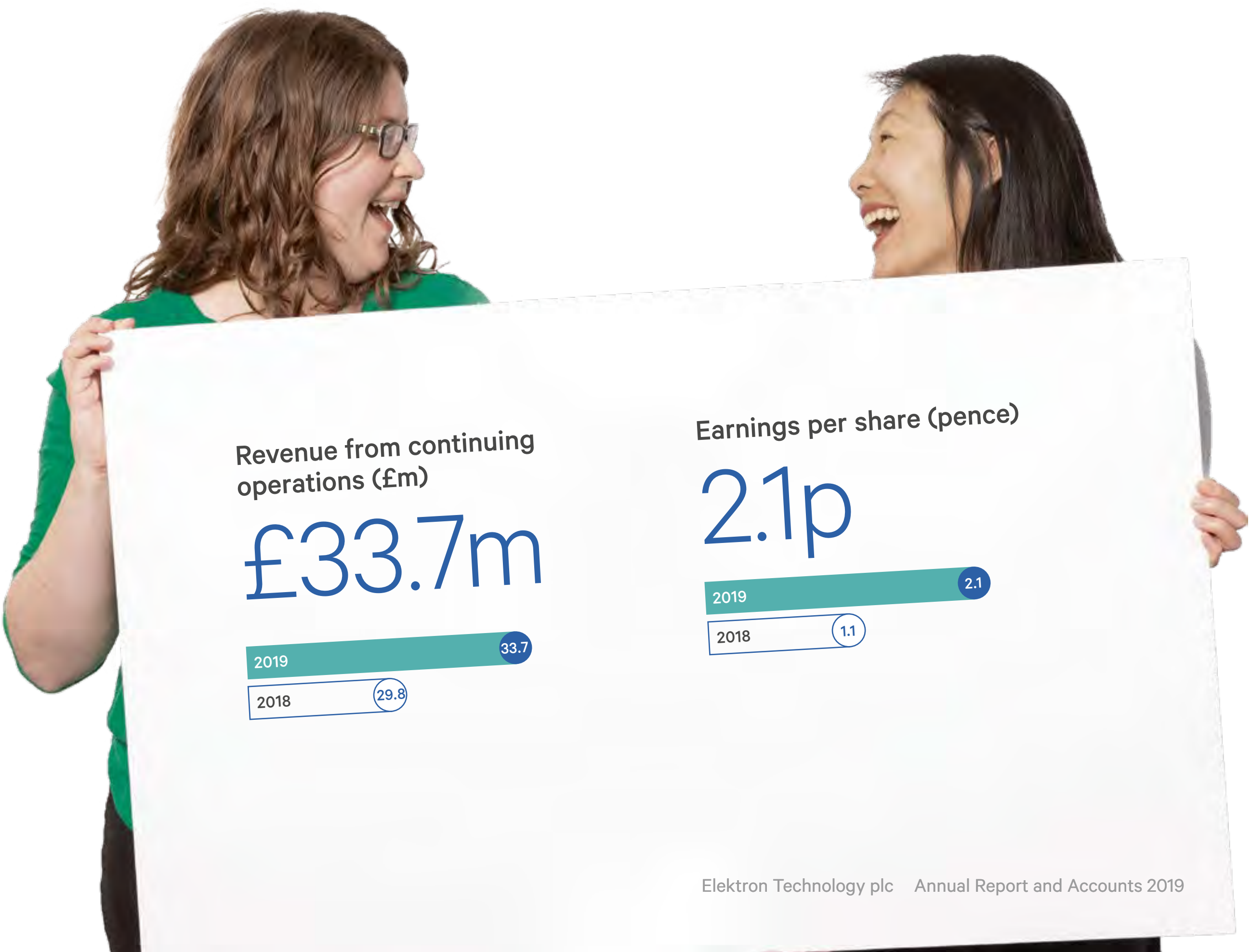
Product development

Elektron spent £2.8m on product development and sustaining engineering in the financial year in respect of continuing operations (2018: £2.6m).

Of this, £1.5m was capitalised (2018: £1.1m), mainly focused on Checkit.

The Board has undertaken a detailed review of the business plans, including a sensitivity analysis, supporting the justification for the carrying value of its product development investment, and is satisfied with the current valuation on the balance sheet.

"Group revenues grew by 13% resulting in a £2.0m increase in reported operating profits, and a £1.7m increase in both EBITDA and operating cash flows."



Taxation

The Group is tax paying in all of its main jurisdictions in which it has operations.

The current corporate tax charge in the year is £0.6m for continuing operations (2018: £0.5m) of which £0.2m (2018: £0.1m) is in respect of profits earned overseas. Including prior year adjustments and deferred tax movements the total charge is £0.8m (2018: charge of £0.8m).

The effective rate of tax for 2019 is 17.3% comparable to the standard UK rate of 19%.

The Group has deferred taxation assets of £0.4m (2018: £0.6m) in respect of temporary differences in its largest trading subsidiary. The Group has UK losses which can only be carried forward and offset against future profits of that specific entity. These amount to approximately £4.1m (2018: £4.7m). No deferred tax asset has been recognised in respect of these losses.

The profit on sale of Queensgate Nano resulted in a tax charge of £0.1m in respect of discontinued items.

Earnings per share

The average number of ordinary shares in issue during the year was 177.7m (2018: 177.9m) (excluding shares held by the Employee Benefit Trust that are not included in the calculation). Basic earnings per share in respect of continuing operations were 2.1 pence (2018: 1.1 pence). Fully diluted earnings per share were 2.0 pence (2018: 1.0 pence).

Cash

The Group improved its cash generated from operations to £5.8m (2018: £4.1m), reflecting the improved trading performance offset by £0.6m investment in inventory in preparation for a “no deal” Brexit.

Total capital investment in the year was £2.2m (2018: £1.8m), representing 95% (2018: 70%) of depreciation and amortisation.

After cash proceeds received from the disposal programme of £1.3m, the overall net cash improved by £4.9m resulting in a net cash position of £10.1m (2018: £5.2m).

Bank facilities, covenants and going concern

At 31 January 2019 the Group had available invoice finance facilities of £0.7m (which could increase up to £5.0m depending on sales levels) together with a bank overdraft of £0.1m. At 31 January 2019 available headroom on these facilities was £0.8m. In addition the Group had £10.1m cash in hand.

Following the year end the Group acquired Next Control Systems for a net £8.8m, satisfied wholly in cash. To ensure the Group had adequate working capital facilities in the short term the Group arranged an increase of £2.9m in its bank overdraft facility to £3m, which by agreement with the Group’s bankers can be converted into a committed revolving credit facility.

The Directors have prepared and reviewed forecasts and projections for the enlarged Group for a period of not less than twelve months from the date of this announcement. These are based upon detailed assumptions, in particular with regard to key risks and uncertainties together with the level of borrowings and other facilities made available to the Group. The Board also considers possible changes in trading performance to determine whether the Group should be able to operate within its current level of facilities.

In the event that actual performance were to fall below the current forecast levels in this period the Group has a number of mitigating factors available to it. The Board has the necessary monitoring and controls in place in order to be able to put the required actions in place if it sees a need to do so. The Directors have, at the time of approving the financial statements and after taking into account the factors noted above, concluded that the Group has adequate financial resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis.

Dividends

Having considered the resources needed to invest in new product development and marketing with the aim of increasing future shareholder value, the Board believes that it is in the Group’s best interests not to pay a dividend for the year.

Andy Weatherstone
Chief Financial Officer
26 June 2019

CONTINUING OUR PROGRESS

We regularly produce a wide variety of key figures for all of our businesses that enable us to identify performance against budget and the previous year. New KPIs have been introduced to focus on the Group's strategy of reinvesting cash generated into new product development.

Key performance indicators are shown below:

Gross profit margin – Group (%)

49.6%

2019	49.6
2018	49.7

The ratio of gross profit to revenue expressed as a percentage.

EBITDA – Group (£m)

£6.8m

2019	6.8
2018	5.1

Earnings before interest, tax, depreciation and amortisation. See note 29.

EBITDA – ex-Checkit (£m)

£9.6m

2019	9.6
2018	7.8

Earnings before interest, tax, depreciation and amortisation. See note 29.

Recognised recurring revenue – Checkit (£m)

£0.9m

2019	0.9
2018	0.4

Current annual value of contracted revenue, including contracts yet to be installed.

Total product development and sustaining engineering spend as percentage of sales (%)

8.3%

2019	8.3
2018	7.1

Ratio of the investment in new products to sales in the year (capitalised and expensed) expressed as a percentage.

Net operating profit as a percentage of revenue (%)

13.6%

2019	13.6
2018	8.7

The ratio of net operating profit to revenue expressed as a percentage.

MANAGING UNCERTAINTIES

The management of the business and the nature of Elektron's growth strategy are subject to a number of risks and uncertainties.

Our ability to meet our goals and objectives may be affected by a number of risks and uncertainties relating to our strategy, business model and operating environment.

Our approach

Effective risk management aids decision making, underpins the delivery of the Group's strategy and objectives and helps to ensure that the risks the Group takes are adequately assessed and actively managed. The Group regularly monitors its key risks and reviews its management processes and systems to ensure that they are effective and consistent with good practice. The Board is ultimately responsible for the Group's risk management. The risk management process involves the identification and prioritisation of key risks, together with appropriate controls and plans for mitigation, which are then reported to the Board.

Objectives of the Elektron risk management process:

- to identify and understand the risks that Elektron faces in the execution of its strategy and the operation of its business model;
- to ensure that the risk appetite of the Board is embedded throughout the organisation and fully understood by those who are responsible for managing risk and making key decisions across the business;
- to assess the potential impact of identified risks and to create and maintain a register of these risks, documenting the decisions taken and the judgements made;
- to ensure that appropriate mitigating actions and controls are in place for all identified risks and that the residual risk is aligned to the risk appetite of the Board;
- to control systematic risks within the organisation by maintaining and improving a system of internal controls to manage risks in decision making, legal contract management, quality and regulatory processes and the processing of financial transactions; and
- to ensure that identified risks are reported to relevant stakeholders in a timely manner to facilitate effective decision making.

PRINCIPAL RISKS AND UNCERTAINTIES

Elektron's risk management processes are forward looking in the identification, management and mitigation of the key business risks that could impact the Group's immediate and long-term performance.

Change in 2019

- Increased ↗
- No change →
- Decreased ↘
- New for 2019 NEW

The following risks are those that the Board considers could have the most serious adverse effect on its performance.

Markets

Risk description and potential impact	Mitigating actions	Change
Level of sales		
Elektron's revenues are currently principally from sales of its products and services. There can be no assurance that current revenues can be maintained or increased in the future. Sales may be affected by adverse market conditions or other factors, including pricing pressures from governments or other authorities, exchange rates, competition, the withdrawal of a product because of a regulatory or other reason, or the financial or commercial failure of a marketing partner. Some of the markets for Group products are in decline. The Group is highly operationally geared, which means that a relatively small reduction in sales can lead to a much larger percentage reduction in profits.	The Group has a diversified network of distributors and customers, with no customer amounting to more than 15% of sales and a substantial portfolio of end users worldwide. The investment in product development assists in reducing the risk of sales decline by focusing on products that are unique within markets that are growing or are expected to grow. The Group's sales force is focused on geographically diverse markets in order to reduce the risk of a downturn in a particular geography.	→
Reliance on legacy business to fund product development		
Several of the Group's products were developed more than 15 years ago and are sold in low growth, static or declining markets. If the rate of attrition were to accelerate, it would become increasingly difficult to fund product development to create future growth.	The Group continually focuses on reducing costs and thereby giving customers the best value for money in order to defend itself against competition in difficult markets. It seeks to bring new products to market at the earliest possible time. It seeks to obtain best value for money from its development programmes and ultimately reduce the reliance on older products.	→
Relationship with end users		
We sell a significant proportion of our sales through distributors and in many cases do not have direct contact with end users. Distributors may suggest the substitution of competitors' products for our products.	The Group has incorporated a requirement for point-of-sale (POS) data into many contracts with distributors. With POS data the Group can monitor the account base being managed through distribution. This enables maintenance of existing customers and identification of new customers. We seek to arrange joint visits with distributors to key customers.	→
International nature of the Group/Brexit		
The Group sells globally and manufactures a proportion of its products outside the United Kingdom, which in turn exposes us to the economic and political environments of those locations. The decision taken by the UK to leave the EU poses a potential risk with reduced availability of EU national resources and barriers to entry through implementation of tariffs.	The Group carefully monitors conditions in each country in which it operates and in appropriate cases ensures it has paid for goods in advance. The Board keeps under regular review the potential impact of developments in Tunisia on the Group's operations. As a consequence it also keeps its insurance arrangements under regular review and takes out appropriate cover. The Board is closely monitoring Brexit events and has set up a committee to determine what action needs to be taken in respect of its relationships with customers and on its supply chain. It has increased inventory levels in the short term as part of its plans to mitigate risk of a "no deal" Brexit.	→

Markets continued

Risk description and potential impact	Mitigating actions	Change
Price erosion		
Elektron experiences competition both from emerging suppliers based in low cost countries and traditional European suppliers seeking to obtain market share by reducing prices.	The Group manages this risk by continually monitoring competitive activity and by continually investing in the design of innovative products for niche applications. It operates a low cost manufacturing facility in Tunisia. It seeks to promote its offerings by focusing on excellent customer service, product availability and quality rather than price.	↘
Checkit demand unpredictable		
Checkit's target market consists of around 500,000 businesses in the UK and substantially more in the USA. If demand were to grow too quickly, Elektron would not be able to supply products, whether for operational or financial reasons. This would tarnish the brand and cause losses.	The Group manages this risk by controlling demand creation activities (for example, by phasing the launch of new offerings and introducing lead generation activities incrementally), by building an extremely flexible, scalable supply chain and by automating key internal processes, such as account creation, to increase scalability.	↗
Market development and competition		
Checkit is an innovative product in the early stage of its life cycle with several proposed features that do not exist in the market. Its target market currently uses paper-based systems. It is therefore necessary to make assumptions as to how the market will develop until sufficient market feedback has been obtained post-product launch. If those assumptions are wrong the Group will have misallocated resources causing losses. As the market grows it is possible that new entrants will be attracted and take market share from Checkit.	The business case for Checkit is based on considerable feedback gained from the market and the achievement of significant annualised recurring revenue contracts. The Group is continually evaluating and learning from market research. Our approach and technology provide capabilities that mitigate some of this risk. They are suitable for a wide variety of food business types and have applications beyond food hygiene in a number of large markets. We are therefore not reliant on one highly specific segment and resource is now being targeted in areas other than food given the financial distress in some parts of this sector. Checkit is "first to market" and its level of investment in product and marketing should ensure it retains its leading position.	↗

Product development, including Checkit

Risk description and potential impact	Mitigating actions	Change
Success of product development		
Products and services developed may not work. They may not be accepted in the market leading to write offs of capitalised development.	Each project is managed through a stage-gate process during which the project is assessed on a regular basis against the market requirements (which are regularly reviewed). This allows early visibility and fixing of issues, consequently limiting exposure.	→
Control of product development		
Development projects may overrun in time and cost, causing losses to the Group.	The scope of each project is defined by the project specifications. The project is monitored on a monthly basis against its scope. In addition, the stage-gate process continually refines the plan, eliminating major uncertainties early on in the project. In the case of using third party software resource, additional reviews and validation are required to ensure both value for money and release dates are met.	↗

Finance

Risk description and potential impact	Mitigating actions	Change
Exposure to financial fraud from inside and outside the Company		
The increasing use of IT systems to manage payments increases the risk of significant financial fraud.	The Group continuously monitors its firewalls and security of its network and systems and has user-restricted access and authorisation controls in place.	→
Commodity and currency fluctuations		
A significant amount of Elektron's purchases are plastic moulding powders and metal parts. Consequently exposure to movements in commodity prices can affect profitability. A significant percentage of Elektron's input and output transactions are denominated in currencies other than Sterling. Sterling exchange rates have fluctuated due to the impact of Brexit.	We regularly review prices and currencies in order to ensure that an appropriate level of cost is passed on to customers. We do not tie ourselves into long-term pricing contracts with customers, nor do we tie ourselves into long-term currency hedging contracts. Where possible we match currency inflows and outflows. Product design is kept under review to seek to ensure that Elektron's products use no more of such commodities than product offerings of our direct competitors.	↗

Finance continued

Risk description and potential impact	Mitigating actions	Change
Bank facilities and liquidity		
The Group maintains bank facilities, even though it is in a net cash position. The Group only has a limited forward order book for its products, creating unpredictability in revenues and cash and hence impacting on the level of liquidity. Since the year end the Group has acquired Next Control Systems Ltd (see financial statements – Note 28), using most of its cash resources.	The Group maintains regular and transparent dialogue with its primary facility lender to ensure it is are aware of developments in the business and reviews the level of facilities required with it based on the Group's forecasts. The Board receives weekly and monthly information to enable it to consider the Group's short and medium-term performance. If performance is not in line with forecast, the Group has a number of mitigating actions that could be implemented.	↗

Operations

Risk description and potential impact	Mitigating actions	Change
Cloud services		
The Group is reliant on cloud services provided by third parties in respect of Checkit product. The failure or withdrawal of these services would mean that Checkit could not function.	This risk is mitigated by selecting large, global providers with demonstrable scale and reliability to provide the Checkit cloud offerings and by designing the systems, where possible, to allow functionality to be moved between providers.	→
Software security and cyber attacks		
Checkit's service provides for customer data to be stored in the cloud. Security breaches could lead to data theft or corruption.	The Group has recently obtained Cyber Essentials certification and employs security and testing measures for the software it deploys. The Group is also undertaking a review of its cyber risk in terms of both its own data and that of its clients and is aiming to achieve ISO 27001 accreditation within the next twelve months.	→
Software reliability and performance		
Checkit's business involves providing customers with reliable software that will perform as intended. Failure could result in loss of customers, claims from customers, loss of reputation and impact of business prospects.	Checkit endeavours to negotiate limitations on its liability in its customer contracts. Software is tested extensively prior to any release being deployed.	→
IT systems		
Elektron is increasingly reliant on its IT systems which if lost would mean that the Group would be unable to function.	The Group has engaged and invested in disaster recovery and business continuity plans to reduce the risk of outage and improve recovery from major interruptions. The Group maintains an appropriate level of backup at all times.	↗
Reliance on key individuals and retention of high quality staff		
The Group is increasingly dependent on key individuals in commercial or management areas. The profitability and reputation of the business may be adversely impacted if they were to depart without warning. The Group is highly dependent on its technology team in Cambridge to enable it to grow.	The Group seeks to attract and retain well qualified staff by designing appropriate remuneration packages and making Elektron an attractive place to work. Considerable emphasis is placed on teamwork. The Group seeks to identify employees who may be considering leaving with a view to addressing any concerns.	→
Reliance on key suppliers		
Certain of the Group's products are reliant on single-sourced items. If those suppliers were unable to supply, the Group would be unable to sell some products.	The Group maintains an open dialogue with suppliers to ensure that an early warning system is in place. Where subcontracted items are single sourced, the Group ensures that appropriate technical files and work instructions are maintained.	→
Customer reliance on Group products		
Many of Elektron's products are essential to the running of its customers' businesses. Were those products to fail, Elektron could be liable for consequential losses.	The Group seeks to protect itself by ensuring that all products meet quality standards. Conditions of sale contain clauses limiting losses to the amount of the sale. Consequential losses are excluded from liability.	→
Integration of acquisitions		
The Group has recently acquired Next Control Systems Ltd; the targeted benefits could fail to materialise if their integration is poorly managed.	The Group has established an integration team with a well defined roadmap.	NEW

STRONG AND BALANCED LEADERSHIP

Keith Daley (63)

Executive Chairman

Appointed to the Board in 2004 and as Chairman in 2008, Keith originally trained as a corporate banker. He is an experienced serial entrepreneur and chairman with a strong sales and marketing focus. He has bought, invested in, managed and sold numerous businesses over the past 30 years.

Keith also chairs the Checkit board in an executive capacity. He operates as a Non-executive for Bulgin as well as taking functional responsibility for HR, Marketing and Legal. He leads on all corporate finance transactions such as acquisitions and disposals.

John Wilson (43)

Chief Executive Officer

Appointed to the Board in August 2010 and as Chief Executive Officer in December 2010, John originally joined Elektron Technology in March 2008 as Technical Director. Prior to this he had spent his career in senior management positions in the UK and North America as well as consulting for a world-leading technology consultancy.

John chairs Bulgin and EET in an executive capacity and acts as CEO for Checkit, as well as taking functional responsibility for quality, technology and product development. He takes the lead on sales outside the UK and spends a significant amount of time overseas.

Andrew "Andy" Weatherstone (55)

Chief Financial Officer and Company Secretary

Appointed to the Board in January 2014, Andy is a Chartered Accountant with over 20 years' experience at main board level within the small UK public quoted companies sector. He initially developed his career with KPMG before moving into industry, where he has built up significant experience in both financial and operational management of global-based manufacturing.

Andy leads the finance function and, in addition, takes functional responsibility for IT. He is responsible for the Group's manufacturing operations as COO. Andy was appointed as Company Secretary in October 2016.

Ric Piper (67)

Senior Independent Director

Ric qualified as a Chartered Accountant in 1977. He held senior finance roles in ICI, Citicorp, Logica and WS Atkins, where he was Group Finance Director from 1993 to 2002. He was a member of the Financial Reporting Review Panel from 2009 to May 2019. In recent years he has been chairman or non-executive director of a number of Main Market and AIM businesses. He is currently a Non-executive of AIM quoted GRC International and a partner at Restoration Partners.

Having been an Elektron Technology Director from 2012–2015, Ric rejoined the Board in December 2018.

Giovanni Ciuccio (38)

Non-executive Director

Appointed to the Board in September 2015, Giovanni is currently employed as an investment analyst/portfolio manager within D&A Income Limited, which is a principal shareholder in Elektron group. Giovanni trained as a Chartered Accountant in South Africa, starting his career with KPMG before moving into investment banking at Barclays Bank Plc and investment management thereafter. Giovanni has extensive experience in capital markets, structured finance and valuation. Giovanni is also a CFA charterholder.

The Directors present their Annual Report on the affairs of the Group together with the audited financial statements for the year ended 31 January 2019.

Principal activity

Elektron Technology is a global technology group that designs, conceives and markets products and services that connect, monitor and control. Further details of the performance of the business are set out in the Strategic report on pages 1 to 27. The principal activity of the Company is that of a holding company.

The Directors are not aware, at the date of this report, of any likely major changes in the Group's activities during the next year, other than the announced acquisition of Next Control Systems Limited.

The subsidiaries of the Group as at 31 January 2019 are listed in Note 13.

Results and dividends

There was a profit attributable to equity shareholders for the year of £4.1m (2018: profit of £1.8m).

No interim dividend was paid in the year (2018: nil pence per share). The Directors are not recommending the payment of a final dividend (2018: nil pence per share).

Research and development

The continual advancement of technology and processes by the Group means costs are incurred each year in research and development. The Directors consider 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 Notes 4 and 11 to the financial statements.

Health, safety and environment

The Group recognises and accepts its responsibilities for health and safety and is committed to achieving the highest practicable standards in health and safety management for all its operations to safeguard its employees, customers and the local community.

The Group is committed to the care of the environment and the maintenance of environmental controls as they relate to the business and aims to ensure that its activities comply at all times with relevant environmental legislation.

Directors and their interests

Biographical details of the current Directors are set out on pages 28 and 29 and details of Directors' beneficial interests in the shares of the Company as at 31 January 2019 are set out in the Remuneration report on pages 33 to 38.

As last year, the Board is following best practice recommendations and, accordingly, the whole Board will be offering itself for re-appointment or appointment as appropriate.

Share capital

As at the date of this report, the total number of shares in issue (being ordinary shares of 5 pence each) is 186,100,851 (2018: 186,100,851).

During the year, the Company did not issue any ordinary shares of 5 pence each (2018: nil shares).

Details of the share capital are given in Note 20 to the financial statements.

Charitable and political donations

The Group made no political contributions (2018: £nil) and no charitable donations (2018: £nil) during the year.

Employees

The Group has human resource policies designed to meet the needs of its Group companies and employees around the world. Recognition is given to individual employees' needs and requirements and employees are encouraged to apply their skills, knowledge and energy. The Group recognises the importance of its employees and their training.

The Group is committed to equality of opportunity for all, regardless of gender, race, age, disability, religion or sexual orientation, where it is reasonable and practicable within existing legislation. This applies equally to recruitment and to the promotion, development and training of staff. The Group recognises that the needs of the business will continue to change. As such, training is and will continue to be offered such that employees are able to enhance their skill base to assist the business in meeting future challenges.

The Group continues to keep its staff informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. At each of our main sites, an employee forum has been established.

Substantial shareholdings

As at the date of this report, the Company was aware, or has been notified in accordance with Chapter 5 of the Disclosure Transparency Rules, of the following interests of 3% or more in its issued ordinary share capital:

D&A Income Limited	24.13%
Mr K Daley	11.67%
Ruffer LLP	10.80%
Chelverton Asset Management Limited	5.37%
Mr J Kinder	4.93%
Elektron Technology 2012 Employee Benefit Trust	4.35%

The Company's website, www.elektron-technology.com provides updated information on substantial shareholdings.

Corporate governance statement

The Company is listed on AIM and has adopted the Quoted Companies Alliance (QCA) Corporate Governance Code in line with the London Stock Exchange's recent changes to the AIM Rules requiring all AIM listed companies to comply with a recognised corporate governance code. Set out below is how we currently comply with the key principles set out in the QCA Code. Further updates will be published at least annually in line with our full year reporting calendar.

Directors

(i) The Board

The Board currently comprises the Executive Chairman, two other Executive Directors and two Non-executive Directors. Brief biographical details of the Directors appear on pages 28 and 29. These illustrate the level and range of business experience which the Board believes enables it to provide clear and effective leadership of the Group. The composition of the Board is reviewed regularly. Appropriate training, briefings and induction information is available to all Directors on appointment and subsequently, as necessary, taking into account existing qualifications and experience. New Directors are subject to election by shareholders at the first Annual General Meeting (AGM) after their appointment.

The Board meets formally at least six times each year and more frequently where business needs require. The Board receives reports from the Executive Directors and business unit and functional heads, ensuring matters are considered fully and enabling Directors to discharge their duties properly. The Board has a schedule of matters reserved to it for decisions 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, health and safety and appointments to the boards of subsidiary companies.

There is an agreed procedure whereby Directors wishing to take independent professional advice in furtherance of their duties may do so, if necessary, at the Group'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 Board procedures are followed and relevant regulations are complied with.

(ii) Executive Chairman and Chief Executive

The division of responsibilities between the Executive Chairman and the Chief Executive is clearly established and understood.

The Board operates with a number of Board Committees.

(iii) Audit and Remuneration Committees

Giovanni Ciuccio chairs the Audit Committee and Remuneration Committee.

The Audit Committee consists of the Non-executive Directors. The Executive Directors are encouraged to attend Audit Committee meetings where possible as part of the programme to maintain the Group's systems of internal controls. Part of each meeting is held with the external auditor without the Executive Directors being present. When required, the Audit Committee considers the adequacy and effectiveness of the risk management and control systems of the Group and reports the results to the Board. It reviews the scope and results of the external audit, its cost effectiveness and the objectivity of the auditor. The Committee also reviews the annual financial statements, the interim statement, the preliminary announcement and other financial announcements prior to their approval by the Board, together with accounting policies and compliance with accounting standards and internal control procedures. The Audit Committee report is on pages 39 and 40.

The Remuneration Committee, which comprises the Non-executive Directors, determines and agrees with the Board the framework and policy of Executive remuneration packages, including bonuses, incentive payments, share options or awards and pension arrangements. The remuneration of the Non-executive Directors is agreed by the Board. The Remuneration report is on pages 33 to 38.

The terms of reference for each of the Board Committees are available on request from the Company Secretary.

(iv) Supply of information

To enable the Board to perform its duties 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 reports from the Executive together with documents regarding specific matters.

(v) Re-appointment

Any Director appointed during the year is required, in accordance with the Company's Articles of Association (the "Articles"), to retire and seek appointment by shareholders at the next AGM. The Articles also require that one-third, but not more than one-third, of the Directors retire by rotation each year and seek re-appointment at the AGM. 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 will not be earlier than 28 days prior to the date of the Notice of AGM. However, ahead of the AGM in 2014 the Board took the decision to follow best practice recommendations for larger fully listed companies and, consequently, the whole Board will be seeking re-appointment or appointment as appropriate at the forthcoming AGM.

Directors' remuneration

Details of Directors' remuneration are contained in the Remuneration report on pages 33 to 38.

Directors' indemnities

The Company has granted indemnities to each of its Directors in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities as Directors to the extent permitted by the Companies Act 2006 and the Company's Articles. Such qualifying third party indemnity provision remains in force at the date of approving the Directors' report.

In addition, Directors and officers of the Company and its subsidiaries are covered by directors' and officers' liability insurance.

Communication with shareholders

Dialogue

The Group recognises the importance of constructive communication with its shareholders to ensure its strategy and performance are understood. This is achieved principally through the Group's Interim Report, Annual Report and AGM. In addition, a range of corporate information is available to investors on the Group's website.

Use of the Annual General Meeting

All shareholders have the opportunity to raise questions at the Company's AGM. In view of the low number of attendees at general meetings, the Board does not make formal business presentations but instead allows time for informal discussion after the conclusion of formal proceedings.

Accountability and audit

Internal financial control

The Board has overall responsibility for the Group's system of internal financial control, which is designed to provide reasonable, but not absolute, assurance against material misstatement 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; and
- defined procedures for the appraisal, review and authorisation of capital and major revenue and development expenditure.

Financial reporting

It is the Board's responsibility to present a balanced assessment of the Group's position and prospects. The respective responsibilities of the Directors and the auditor in connection with these financial statements are explained on pages 41 to 46.

Auditor and disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with Section 418 of the Companies Act 2006.

Grant Thornton UK LLP has indicated its willingness to continue in office as auditor and a resolution concerning its appointment will be proposed at the forthcoming AGM.

Annual General Meeting

The Company's AGM will be held on 30 July 2019. Accompanying this Annual Report and Accounts is a letter from the Chairman and a Notice of AGM that sets out the resolutions to be considered and approved at the meeting.

On behalf of the Board

Andy Weatherstone
Company Secretary
26 June 2019

Registered number
448274

REWARDING SUCCESS

Dear Shareholder

I am pleased to present our 2018/19 Remuneration report. This has been prepared by the Committee and approved by the Board. Shareholders will be invited to approve this report in an advisory vote at the forthcoming Annual General Meeting.

I would like to thank Peter Welch for his contribution to the Committee as its Chair. Peter stepped down from the Board on 31 January 2019. I should also like to welcome Ric Piper, who joined the Committee upon his re-appointment to the Board on 18 December 2018. Ric was the Committee's Chair in 2013–15.

Composition of the Remuneration Committee

The Committee consists of the Non-executive Directors only. During the financial year ended 31 January 2019 its members were Peter Welch (Chair to the date of his resignation), myself (current Chair) and Ric Piper from his appointment. No member of the Committee has or has had any personal financial interest (other than as shareholders) or conflicts of interest arising from cross directorships.

Role of the Remuneration Committee

The Committee is responsible for setting policy on Directors' remuneration and for determining the individual remuneration packages of the Group's Executive Directors. The Committee is also responsible for considering certain aspects of the employment terms for the Group's senior staff, including arrangements for long-term incentive plans and for all other staff where the issue of equity is involved.

The Committee will in respect of any proposals for annual bonuses, long-term incentive scheme plans and any other grants to the executives normally bring such proposals to the attention of shareholders via remuneration reports that are contained in the Group's annual reports. Shareholders will then be given the opportunity to approve such reports in advisory vote at the next Annual General Meeting. In the event that approval is not given, it would be the intention of the Remuneration Committee not to proceed with the proposals.

Governance framework

Companies with securities listed on AIM are not required to comply with either the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 or the UKLA Listing Rules. The Company has adopted the QCA Code and the Remuneration Committee is committed to maintaining high standards of corporate governance and open communication with shareholders and has amended its terms of reference to accommodate the adoption of the QCA Code. The terms of reference are available from the Company Secretary upon request. It has applied the regulations and guidelines as far as is practical given the current size and development of the Group.

Unaudited information

The independent auditor is not required to audit and has not, except where indicated, audited the information included in the Remuneration report. The audited information meets the remuneration disclosure requirements of Rule 19 of the AIM Rules for Companies.

Executive Directors' remuneration policy

The Group's remuneration policy is designed to motivate, retain and attract Directors and senior executives of the high calibre necessary for a business with Elektron's complexity, international scope and ambitions, and to ensure that their interests are closely aligned with those of shareholders.

The Committee actively reviews the Group's remuneration structure, seeking independent external advice, where appropriate, to ensure that it is designed to deliver this policy efficiently and effectively, balancing this with the need to obtain value for money for the Group. The review process ensures that the balance between fixed and variable remuneration is appropriate.

A remuneration policy table for the Executive Directors is set out below showing how the Remuneration Committee intends the policy to operate for the period until the Company's next Annual General Meeting in 2020.

We shall continue to benchmark Director packages against market norms, using independent external advice as appropriate.

Executive Directors' remuneration policy continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Basic salary			
To pay competitive basic salaries to attract, retain and motivate the talent required to operate and develop the Group's businesses and to develop and deliver the Group's strategy.	Basic salaries are reviewed on an annual basis.	Salary increases in practice are expected to be limited.	None, although the overall performance of the individual will be taken into consideration by the Committee when reviewing and setting salary levels.
Pension			
To provide an opportunity for Executives to build up income on retirement.	All Executive Directors are eligible to participate in the Group Personal Pension Scheme, or to receive a contribution to self-invested personal pension plans or to receive a payment in lieu of the above.	10% of basic salary, or equivalent paid as salary.	Not applicable.
Benefits			
To provide market-competitive, non-cash benefits.	Executive Directors receive benefits that consist primarily of car allowance, income protection in the event of long-term ill health, private family healthcare insurance and death-in-service benefits.	Benefits may vary by role and are set at levels which the Committee considers to be sufficient based on the role and individual circumstances.	Not applicable.
Annual bonus plan based on current year performance			
To incentivise and reward strong performance against annual financial targets, thus delivering value to shareholders.	The Remuneration Committee intends that the bulk of any increase in annual cash remuneration should come as a result of this bonus scheme. Financial performance targets are typically set in the first quarter of the financial year and adjusted, if necessary, should there be any corporate transaction. The Committee then assesses actual audited performance compared to those performance targets following the completion of the financial year and determines the bonus payable to each individual. Bonus payments may be delivered in cash or shares at the Remuneration Committee's discretion. The plan is reviewed annually.	For the Executive Directors the maximum amount paid shall not normally exceed 100% of basic salary. The Committee shall have discretion to pay higher levels of bonuses in the case of exceptional performance.	Performance is determined by the Committee on an annual basis by reference to specific profit and other targets.
Long Term Incentive Plan (LTIP) arrangements			
To drive sustained long-term performance that supports the creation of shareholder value.	Awards are designed to provide a meaningful reward to Executive Directors linked to the long-term success of the business.	A plan was put in place in 2016 with full details of vesting options in the notes following. Please see comments above relating to future LTIPs.	The current LTIP relies on multiple performance targets.
Company Share Option Plan (CSOP)			
To drive sustained long-term performance that supports the creation of shareholder value.	Option grants are made from time to time at the Committee's discretion.	Any aggregate outstanding CSOP awards made to a participant may not relate to shares with value(s) at the time of grant(s) exceeding £30,000, the limit approved by HM Revenue & Customs (HMRC).	Vesting of options is subject to a vesting period of at least three years and continued employment. If no entitlement has been earned at the end of the relevant performance period, awards will lapse.

Notes

Basic salary

The basic salaries for Keith Daley, John Wilson and Andy Weatherstone will not be subject to review during the 2020 financial year.

The Annual basic pay disclosure note shows an increase versus prior year arising from a full year effect of the prior year's cost of living increase.

Annual bonus plan

Bonuses are not contractual and remain at the discretion of the Remuneration Committee.

2019

Details of the 2018/19 bonus scheme are set out on page 31 of last year's Annual Report. The total bonus pool for 2018/19 is £0.2m (as although the Group EBITDA after deducting any impairments, exceptional items and the Executive Directors' annual bonuses ("Adjusted EBITDA") for the year ended 31 January 2018 was £6.8m the Checkit 2018/19 condition was not met and thus the bonus halved).

Given the Group's strong overall financial outperformance during the period even after incurring £240,000 for the unsolicited bid, the Committee has agreed to provide a further discretionary bonus to John Wilson and Andy Weatherstone of £80,000 and £20,000 each. This brings their total bonus to £184,000 and £108,000 being 83% and 57% of their respective basic annual salary.

In addition, the Committee has agreed to provide a discretionary bonus of £75,000 to Keith Daley for the excellent result achieved on the disposal of Queensgate (this amount has been charged against discontinued items in the income statement) and a further £25,000 for his overall contribution to the Group during the period, particularly around the period of the bid where the team was extremely stretched across the three business lines whilst successfully maintaining Bulgin's exceptional performance. The total sum amounts to 49% of his basic annual salary.

2020

The unsolicited bid for the Group's Bulgin business that took place during the year and the acquisition of Next Control Systems Limited on 15 May 2019 has meant that neither an annual bonus scheme nor a new long term incentive plan (LTIP) could be finalised with all of the Executive Directors prior to the publication of this report. No payments will be made in this respect prior to their approval at the 2020 AGM other than a supplement of £80,000 per annum in respect of John Wilson. The supplement is being paid monthly in the current financial year only providing certain confidential profitability related milestones are met.

Long Term Incentive Plans

(a) Market value options

These options, granted on the unwinding of the 2012 LTIP scheme, enable Keith Daley and John Wilson to acquire shares at the higher of mid-market price at close of business on the previous business day and 5 pence. Their interests as at 31 January 2018 and 2019 are set out in the table below.

(b) 2016 LTIP

Approved by shareholders at the 2016 AGM, the 2016 LTIP's focus was on total cash generation and total shareholder return over a three-year period. The LTIP was limited to John Wilson and Andy Weatherstone where each received awards equivalent to 5m and 2.5m Elektron Technology plc shares respectively. Each would only benefit to the extent that the Elektron share price exceeds 10 pence, and the awards would only vest without condition after the financial year ended 31 January 2019 (the "Performance End Period") on the Determination Date (defined below) (or on completion of certain corporate events (such as a sale of the company or sale of substantially all of the assets of the group) if the following performance hurdles are met:

a. consolidated cash balances exceed £8m after adding back any cash distributions paid to shareholders and deducting all consolidated Group financial liabilities and any net working capital liabilities per these audited accounts (the "Cash Hurdle"); and

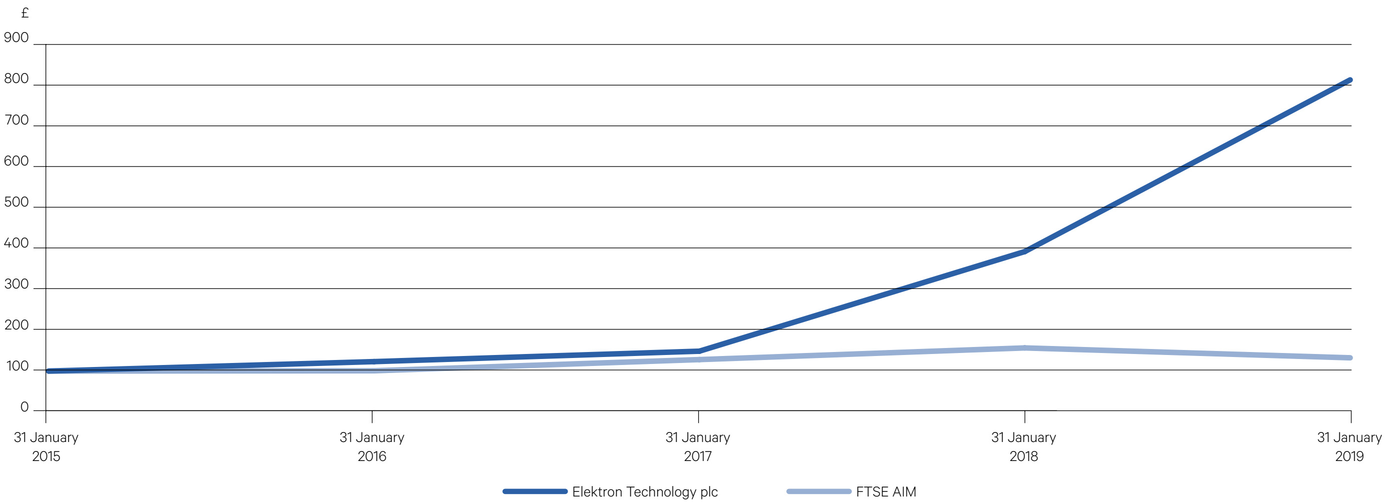
b. the share price (plus any cumulative cash distribution paid to shareholders before the Performance End Period) is: (i) greater than 15 pence but less than 17.5 pence (in which case 75% of the allocation vests); (ii) greater than 17.5 pence but less than 20 pence (in which case 85% of the allocation vests); and (iii) greater than 20 pence (in which case 100% of the allocation vests). The share price for these purposes will be a 90-day volume weighted average measured from the date the audited accounts for the Performance End Period (the "Determination Date") are announced or 30-day volume weighted average from date a corporate event is announced and is unconditional (the "Measurement Period VWAP", the hurdle, "Price Hurdle").

The awards were structured under the tax-advantaged Employee Shareholder Shares (ESS) scheme, where shares in Elektron Technology UK Limited (ETUK), a wholly owned subsidiary, were issued to each of John Wilson and Andy Weatherstone. If the performance hurdles are met, the participants can put the vested ETUK shares to the Company or Trustee for an amount equal to the difference between the Measurement Period VWAP and the 10 pence hurdle.

The independent members of the Board (Giovanni Ciuccio, Ric Piper and Keith Daley) will determine whether payment should be made in shares or cash.

As an estimate, based on the share price of 44.0 pence as at 31 January 2019, the value of the award to John Wilson is £1.7m and to Andy Weatherstone is £0.850m. Whilst the Committee acknowledges that the amounts are significant, it is the case that the scheme was specifically designed to highly incentivise the turnaround performance of the business by generating net cash whilst developing its most promising businesses and yield total shareholder return. More specifically the Group generated £11.7m improvement in net cash (with no debt on the balance sheet) and a total return to shareholders of 830% in total (132% CAGR) where the total cost of the award to shareholders is 3.5% of total value since first approved in July 2016.

Long Term Incentive Plans continued
Total shareholder return



The Company's share price over the five-year measurement period rose from 5.5 pence to 44.0 pence.

The chart shows the value at 31 January 2019 of £100 invested at 31 January 2015, compared with the value of £100 invested in the FTSE AIM Index.

Over the period Elektrons' share price has increased 700% compared with a 32% increase in the FTSE AIM index.

(c) New LTIP
As noted above, the Committee will consider in due course the design and implementation of a new LTIP.

Company Share Option Plan (CSOP)
The Company operates a tax-advantaged Company Share Option Plan (CSOP) for Executives, up to the £30,000 individual limit under the relevant regime. No options were issued during the year. The Directors' interests under the CSOP as at 31 January 2017 and 2018 are set out in the table below:

Directors' interests in approved options over ordinary shares of 5 pence each	Exercise period	Option price	**No. of options at 31 January 2019**	No. of options at 31 January 2018
J Wilson	12/12/2020–12/12/2027	16.87	**175,000**	175,000
A Weatherstone	30/07/2019–30/07/2026	5.25	**571,425**	571,425
Total			**746,425**	746,425

Summary of long term awards and options to Directors in issue at 31 January 2019:

Directors' interests in approved options over ordinary shares of 5 pence each	Market value options	LTIP	CSOP
K Daley	541,500	—	—
J Wilson	1,357,661	5,000,000	175,000
A Weatherstone	—	2,500,000	571,425
Total	**1,899,161**	**7,500,000**	**746,425**

Employment contracts – Executive Directors
All Executive Directors are employed on service contracts terminable on six months' notice by the Company or the Director.

Non-executive Directors

All Non-executive Directors serve under letters of appointment that either party can terminate, on one month's written notice in the case of Giovanni Ciuccio and three months' written notice in the case of Ric Piper. Their remuneration is determined by the Board within the limits set by the Articles of Association and is based on information on fees paid in similar companies, and the skills and expected time commitment of the individual concerned. The basic fees were reviewed during 2018 and have as a result been increased. The Non-executive Directors receive no remuneration or benefits in kind other than their basic fees and are not eligible for any equity-based incentive schemes.

In the specific circumstances of the bid for the Group's Bulgin's business noted above, the Board (excluding the Non-executive Directors) awarded additional fees to Peter Welch and Giovanni Ciuccio of £8,000 and £10,000 respectively for additional time spent on the bid, as reflected opposite in the table below.

Total emoluments and the single figure of total remuneration

Emoluments for the Executive Directors and Non-executive Directors are set out below. The figures represent emoluments earned as Directors during the relevant financial year. Such emoluments are paid in the same financial year, with the exception of bonuses, which may be paid in the year following that in which they are earned but are charged in the year to which they relate.

Audited information

Year to 31 January 2019	Basic pay £'000	Fees for additional work £'000	Benefits[1] £'000	Bonuses £'000	Total £'000	Pension contribution[2] £'000	LTIPs vested/ options exercised in the year £'000	Single figure of total remuneration £'000
Executive Directors								
K Daley	203	—	15	100	318	20	—	338
J Wilson	223	—	12	184	419	22	—	441
A Weatherstone	188	—	14	108	310	19	—	329
Non-executive Directors								
G Ciuccio	24	8	—	—	32	—	—	32
R Piper (from appointment)	6	—	—	—	6	—	—	6
P Welch	36	10	—	—	46	—	—	46
Total 2019	**680**	**18**	**41**	**392**	**1,131**	**61**	**—**	**1,192**

1 Benefits include car or car allowance, fuel and private medical insurance for Directors and dependants.

2 Includes payments made in lieu of pension contributions.

Year to 31 January 2018	Basic pay £'000	Fees for additional work £'000	Benefits[1] £'000	Bonuses £'000	Total £'000	Pension contribution[2] £'000	LTIPs vested/ options exercised in the year[3] £'000	Single figure of total remuneration £'000
Executive Directors								
K Daley	200	—	14	—	214	20	—	234
J Wilson	210	—	13	201	424	23	—	447
A Weatherstone	180	—	13	169	362	17	—	379
Non-executive Directors								
G Ciuccio	20	—	—	—	20	—	—	20
P Welch	36	—	—	—	36	—	—	36
Total 2018	646	—	40	370	1,056	60	—	1,116

1 Benefits include car or car allowance, fuel and private medical insurance for Directors and dependants.

2 Includes payments made in lieu of pension contributions.

3 John Wilson exercised his rights over 183,839 market price options in ordinary shares of 5 pence each during the year, which resulted in nil gain/(loss).

The Executive Directors elected to take payments in lieu of Company pension contributions for the full year. The emoluments of the highest paid Director were £419,000 (2018: £424,000) and, in addition, the Group made pension contributions or payments in lieu of pension contributions of £22,000 (2018: £23,000).

Audited information continued

The annual basic pay for each of the Directors at the year end and as at the date of this report is listed below:

	Basic pay at date of report £'000	**2019 £'000**	2018 £'000
K Daley	207	**203**	200
J Wilson	227	**223**	210
A Weatherstone	191	**188**	180
G Ciuccio	33	**24**	20
R Piper	36	**6**	—
P Welch	—	**36**	36

Unaudited information

Directors' share ownership

The shares owned by the current serving Directors serving at 31 January 2019, including their interests in shares, are shown below:

	Shares owned outright at 31 January 2019	Shares owned outright at 31 January 2018 or date of appointment
Executive Directors		
K Daley	**21,710,516**	21,710,516
J Wilson	**2,600,000**	2,600,000
A Weatherstone	**50,000**	50,000
Non-executive Directors		
G Ciuccio	**13,500**	13,500
R Piper	**380,333**	380,333
P Welch	**250,000**	250,000
Total	**25,004,349**	25,004,349

Amounts payable to outside advisers in respect of Directors' remuneration

The Committee has engaged the services of independent remuneration consultants H2Glenfern during the year. Fees charged in the year amounted to £26,000 (2018: £8,000).

Approval

This report was approved by the Board of Directors on the date shown below and signed on its behalf by:

Giovanni Ciuccio
Chairman of the Remuneration Committee
26 June 2019

AUDIT COMMITTEE REPORT

This report describes the membership and operation of the Audit Committee.

The Audit Committee consists only of the Non-executive Directors. Giovanni Ciuccio is the current Chairman appointed 12 December 2018 From the conclusion of the Annual General Meeting, Ric Piper will become Chairman of the Committee. He was previously Chairman in 2012–13 and a member in 2013–15.

During the financial year ended 31 January 2019 the Committee's members were Peter Welch (since replaced by Ric Piper) and Giovanni Ciuccio. The biographies of each can be found on page 29 or on the Company's website.

Key responsibilities:

- monitoring the integrity of the half-yearly and annual financial statements and formal announcements relating to the Group's financial performance;
- reviewing significant financial reporting issues, accounting policies and disclosures in financial reports;
- reviewing the effectiveness of the Group's internal control procedures and risk management systems;
- considering how the Group's internal audit requirements shall be satisfied and making recommendations to the Board;
- making recommendations to the Board on the appointment or re-appointment of the Group's independent external auditor;
- a review of the independent auditor's audit strategy and implementation plan and its findings in relation to the Annual Report and Interim Report;
- overseeing the Board's relationship with the independent auditor, including its continuing independence and, where appropriate, the selection of a new independent auditor; and
- reviewing the Group's procedures for detecting and responding to fraud and bribery and ensuring that an effective whistleblowing procedure is in place.

The Board considers that throughout the financial year and subsequently the Committee is properly constituted given Giovanni Ciuccio's, Ric Piper's and Peter Welch's recent and relevant financial and accounting experience. The Board considers that the Committee as a whole has competence relevant to the sector in which the Group operates.

The Committee met four times during the financial year. The independent auditor attended two of the meetings and the Committee met privately with the independent auditor during the year.

The Executive Directors are routinely invited to Committee meetings, with the Chairman of the Board attending the meetings at which the interim and annual results are reviewed.

Operation of the Committee

The Committee's terms of reference were reviewed, updated and approved by the Board in January 2019.

The major updates accommodate the Group's adoption of the Quoted Companies Alliance (QCA) Corporate Governance Code and clarifications regarding appointments during the transitional period where there is a change in the Committee, as encountered during the 2019 financial year. The terms of reference are available on request from the Company Secretary.

The terms of reference will be next reviewed by January 2020.

The main activities of the Committee during the year were as follows:

Oversight of financial reporting

The Committee acts in an oversight role in respect of the Annual Report and announcements with financial content that is prepared by executive management. The Committee received reports on the annual from the external auditor, which attended its meetings.

The Independent auditor's report is set out on pages 42 to 46.

The Committee's work also included reviewing the financial statements, key financial policies, including accounting, tax and treasury, and significant issues of judgement, detailed as follows:

» Revenue recognition

The new revenue recognition standard, IFRS 15, has no material impact on the Group (see page 51 and page 55).

» Impairment of capitalised development costs

The Committee reviewed capitalised development costs for impairment. The Committee concluded that the value of these capitalised costs remained appropriate following a review of forecast present value computations and the underlying primary judgement areas, namely the achievability of long-term projections and the key macroeconomic and business specific assumptions.

In considering the matter the Committee discussed with management the judgements made and the sensitivities performed and deemed these appropriate. Accordingly it was agreed that no impairment charges were required.

» Inventory valuation

The Committee reviewed the judgements applied to standard costing valuations and provisions against excess and obsolete inventory and concurred with management's assessment.

» Deferred taxation

In addition the Committee reviewed the appropriateness of the recognition of deferred taxation. The level of deferred tax asset recognition in relation to accumulated tax losses is underpinned by a range of judgements. The Committee was satisfied that such judgements were appropriate and the risk had been adequately addressed.

Further details on these are disclosed in Notes 8 and 14 respectively.

Operation of the Committee continued

Oversight of financial reporting continued

The main activities of the Committee during the year were as follows:

» **Internal financial control systems**

The Audit Committee is required to assist the Board in its annual assessment of the effectiveness of risk management and internal control systems. The Committee reviewed the updated risk register prepared by Board members and senior management which is an ongoing process of identifying, evaluating and managing the significant risks faced by the Group, with regular review by the Board.

Key procedures designed to provide an effective system of internal control are that:

- Clearly defined lines of responsibility ultimately reporting to the executive, all with appropriate segregation of duties.
- Annual budgets are prepared and agreed by Board at the start of each financial year and updated as necessary.
- Management accounts are prepared monthly and compared to budgets and forecasts to identify any significant variances.
- The Group appoints staff of the required calibre to fulfil their allotted responsibilities.

In addition recommendations made by the independent auditor and management's responses and subsequent implementation actions are reviewed.

The Committee was satisfied that it was appropriate for the Board to make the statements regarding internal controls included in the Report of the Directors and the Directors' responsibilities statement.

» **Internal audit**

Given the size of the Group the position remained that it was not appropriate for the Group to undertake formal internal audit activities during the year.

Where applicable, the Chairman of the Committee reported to the Board on the Committee's activities after each meeting, identifying relevant matters requiring communication to the Board and recommendations on the steps to be taken.

Independent auditor: audit tender and re-appointment

The appointment of the independent external auditor is approved by shareholders annually. The independent auditor's audit of the financial statements is conducted in accordance with International Standards on Auditing (UK and Ireland) (ISAs), issued by the Auditing Practices Board.

There are no contractual obligations that act to restrict the Committee's choice of external auditor.

KPMG UK LLP were the Company's auditors for the 2018 annual audit. As KPMG UK LLP was to be appointed as a provider of non-audit services to Checkit in the second half of 2018 calendar year and thus no longer eligible to operate as an independent auditor to the UK businesses, subsequent to the 2018 AGM, the Board directed the Committee to undertake a competitive tender of the audit and make a recommendation to the Board.

The outcome of that process and recommendation was that Grant Thornton UK LLP was appointed as independent auditor to fill the casual vacancy as independent auditor of the Group. It is noted that FMBZ KPMG Tunisie, a member firm of the KPMG network of independent firms affiliated with KPMG International, retains the audit of Elektron Tunisie Sarl, it is an independent auditor and conducts activities wholly separate from KPMG UK LLP. It is considered independent and we have confirmed both such independence from them and compliance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants – IESBA Code of Ethics.

Independent auditor: services, independence and fees

The independent auditor's audit of the financial statements is conducted in accordance with International Standards on Auditing (ISAs) (UK) issued by the Auditing Practices Board.

The independent auditor, with Alison Seekings as Senior Statutory Auditor, provides the following services:

- a report to the Committee giving an overview of the results, significant contracts and judgements and observations on the control environment; and
- an opinion on the truth and fairness of the Group and Company accounts.

The Committee monitors the cost effectiveness of audit and non-audit work performed by the independent auditor and also considers the potential impact, if any, of this work on independence. Approval is required prior to the independent auditor commencing any material non-audit work in accordance with a Group policy approved by the Committee.

Certain work, such as providing bookkeeping services, is prohibited.

The Committee also regulates the appointment of former employees of the independent auditor to positions in the Group. The Committee regularly reviews all fees for non-audit work paid to the independent auditor. Details of these fees can be found in Note 4 to the financial statements.

No non-audit fees were incurred in 2019.

FMBZ KPMG Tunisie were retained as auditors and no non-audit fees were paid.

In 2018 the level of non-audit fees paid to KPMG UK LLP represented 23% of the audit fees of the Group.

The independent auditor also operates procedures designed to safeguard its objectivity and independence. These include the periodic rotation of audit partner, use of independent concurring partners, use of a technical review panel (where appropriate) and annual independence confirmations by all staff. The independent auditor reports to the Committee on matters including independence and non-audit work on an annual basis.

Annual reporting to the Board

The Committee reports back to the Board annually on matters under its purview.

Approval

This report was approved by the Committee, on behalf of the Board, on the date shown below and signed on its behalf by:

Giovanni Ciuccio
Chairman of the Audit Committee
26 June 2019

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report and a Directors' report that complies with that law and those regulations.

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

Directors' responsibilities statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Annual Report includes a fair review of the development and performance of the business, the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

John Wilson
Chief Executive Officer

Andy Weatherstone
Chief Financial Officer
26 June 2019

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Elektron Technology Plc (the ' parent company') and its subsidiaries (the 'Group') for the year ended 31 January 2019, which comprise the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, parent company balance sheet, parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

» the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 January 2019 and of the Group's profit for the year then ended;

» the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

» the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

» the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

» the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

» the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

» Overall materiality: £337,000, which represents 1% of the Group's revenues;

» Key audit matters were identified as the adoption of IFRS 15 'Revenue from Contracts with Customers' and capitalised development costs may be impaired.

» We performed full scope audit procedures on the financial statements of Elektron Technology Plc and on the financial information of Elektron Technology UK Limited, Elektron Eye Technology Limited and Checkit Limited and targeted procedures for Elektron Technology Corporation. We engaged component auditors to perform targeted audit procedures for Elektron Tunisie Sarl. Analytical procedures were performed for all other components.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
The financial statements may not be prepared in accordance with IFRS 15 'Revenue from Contracts with Customers' The Group has adopted IFRS 15 'Revenue from Contracts with Customers' for the first time for the year ended 31 January 2019. The Group's revenue arises from three business segments, Bulgin, Checkit and Elektron Eye Technology, and the revenue streams are subject to different revenue recognition policies. Revenue from sales of products are recognised on delivery to customers. Subscription revenues for Checkit include all hardware, software, installation and support; within this, there are distinct elements of the contract which are recognised both at a point in time and over time. For Checkit, we therefore identified the risk that the financial statements may not be prepared in accordance with IFRS 15 'Revenue from Contracts with Customers' as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: » Assessing whether revenue recorded in the year was consistent with the Group's accounting policy and whether that was compliant with IFRS 15; » Obtaining management's board paper setting out their assessment of the impact of IFRS 15; » Considering key judgement areas in management's assessment of the impact of IFRS 15. This included an assessment of management's conclusions of revenue streams that were (a) bundled services recognised over time and (b) distinct and represent separate performance obligations; » Corroborating a sample of customer contracts to signed agreements and installation documentation; and » Assessing management's treatment of contract costs in line with our knowledge of the nature of the costs and the relevant revenue stream. The Group's accounting policy on revenue recognition, including revenue from contracts with customers, is shown in note 1 to the financial statements, and related disclosures are included in note 2. **Key observations** Based on our audit work we consider the Group's financial statements have been prepared in accordance with IFRS 15 'Revenue from Contracts with Customers'.

Key audit matters continued

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Capitalised development costs may be impaired The Group has capitalised development costs of £2.6m (2018: £2.8m) relating to new product development. Capitalised development costs are assessed for impairment indicators and tested for impairment if there is evidence of such indicators. Checkit is a business still in its development phase and has the largest capitalised development cost within the Group. Revenue growth leading to profit generation is a key factor with the timing and quantum of such growth being uncertain. Without a history of cash flow generation, there is inherent uncertainty in forecasting and discounting future cash flows. Consequently, we identified the risk that capitalised development costs may be impaired as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: » Assessing whether the group's accounting policy for impairment was in accordance with the Financial Reporting framework and that the Group had completed testing for impairment of capitalised development costs in accordance with that policy; » Comparing the Group's disclosures in respect of impairment tests and key judgements and estimates (see note 1) against disclosure requirements specified in IAS 36 'Impairment of Assets'; » Confirming the mathematical accuracy of the discounted cash flow model and assessing their compliance with IAS 36; » Challenging management's assessment as to whether there were any indicators of impairment associated with the capitalised development costs based on our knowledge of the Group and the trading performance of the relevant business segment; » Challenging management on the discount rates applied and using our valuation experts to assess a pre-tax discount rate for use in our audit sensitivity analysis; » Considering the reasonableness of key assumptions, including growth rate and cash flow forecasts by agreeing to management's business plans and to historic performance; » Challenging the forecasts used in the discounted cash flow model through an evaluation of the Group's budgeting procedures upon which the forecasts are based and assessing the accuracy of the forecasts by considering the current year results compared to budget. » Conducting a sensitivity assessment by performing breakeven analysis on the assumptions noted above; and » Challenging the reasonableness of the Group's impairment testing and considering whether the disclosures reflect the risks inherent in the directors' valuation of capitalised development costs. The Group's accounting policy on impairment of tangible and intangible assets, including capitalised development costs, is shown in note 1 to the financial statements, and related disclosures are included in note 11. The Audit Committee identified impairment of capitalised development costs as an issue in its report on page 39 where the Audit Committee also described the action that has been taken to address this issue. **Key observations** Based on our audit work, we did not identify any impairment in the carrying value of intangible assets related to development costs.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£337,000, which is 1% of the Group's revenues. This benchmark is considered the most appropriate because revenue is a key performance indicator used by management and shareholders in assessing performance of the Group. The Group is a commercially focused profit generating organisation, but smaller operating divisions operate at a loss or near breakeven.	£253,000, which is based on 2% of the parent company's total assets, restricted to 75% of Group materiality. This benchmark is considered the most appropriate because the parent company is a non-trading holding company.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£16,900 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£12,700 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile. We considered the size and risk profile of each entity, any changes in the business and other factors when determining the level of work to be performed on the financial information of each entity, which in particular included:

» Evaluation by the Group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of the Group's total assets, revenues and earnings before taxation;

» Performance of full scope audits of the financial statements of Elektron Technology Plc and of the financial information of Elektron Technology UK Limited, Elektron Eye Technology Limited, Checkit Limited and targeted procedures for Elektron Technology Corporation and Elektron Tunisie Sarl. These accounted of for 100% of the Group's revenues and 99% the Group's total assets. For all other entities in the Group, we performed analytical procedures to support the Group audit opinion;

» Component auditors were used to complete audit procedures on Elektron Tunisie Sarl. The Group audit team instructed the component auditors as to the significant areas to be covered, including the relevant risks documented above, for Group purposes. The Group audit team held telephone conference meetings with the component auditors. At these meetings the audit approach, audit findings and observations reported to the Group audit team were discussed in more detail; and

» This was a first-year audit. Our audit approach in the current year included a combination of controls testing and substantive testing.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information continued

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

» the information given in the strategic report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and

» the strategic report and the report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

» adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

» the parent company financial statements are not in agreement with the accounting records and returns; or

» certain disclosures of directors' remuneration specified by law are not made; or

» we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 41, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
Date: 26 June 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

year ended 31 January 2019

	Notes	2019 £m	2018 £m
Revenue	2	**33.7**	29.8
Cost of sales		**(17.0)**	(15.0)
Gross profit		**16.7**	14.8
Operating expenses			
Operating expenses (excluding non-recurring or special items)	3	**(12.1)**	(12.3)
Operating profit before non-recurring or special items		**4.6**	2.5
Non-recurring or special items	4	**—**	0.1
Total operating expenses	3	**(12.1)**	(12.2)
Operating profit	4	**4.6**	2.6
Finance income	5	**—**	0.1
Profit before taxation		**4.6**	2.7
Taxation	8	**(0.8)**	(0.8)
Profit from continuing operations		**3.8**	1.9
Profit/(loss) from discontinued operations	26	**0.3**	(0.1)
Profit for the year attributable to equity shareholders		**4.1**	1.8
Other comprehensive expense			
Exchange differences on translation of foreign operations		**(0.7)**	(1.1)
Total comprehensive income for the financial year attributable to equity shareholders		**3.4**	0.7
Earnings per share from continuing operations			
Basic EPS		**2.1p**	1.1p
Diluted EPS	10	**2.0p**	1.0p

CONSOLIDATED BALANCE SHEET
as at 31 January 2019

	Notes	2019 £m	2018 £m
Assets			
Non-current assets			
Capitalised development costs	11	**2.6**	2.8
Other intangible assets	11	**0.3**	0.4
Property, plant and equipment	12	**1.7**	1.5
Deferred tax asset	14	**0.4**	0.6
Total non-current assets		**5.0**	5.3
Current assets			
Inventories	15	**4.3**	4.0
Trade and other receivables	16	**5.1**	5.0
Assets held for sale		**—**	0.8
Cash and cash equivalents		**10.1**	5.2
Total current assets		**19.5**	15.0
Total assets		**24.5**	20.3
Current liabilities			
Trade and other payables	17	**6.6**	6.2
Current tax payable		**0.3**	0.2
Provisions	19	**1.0**	0.7
Total current liabilities		**7.9**	7.1
Non-current liabilities			
Long-term provisions	19	**0.3**	0.3
Total non-current liabilities		**0.3**	0.3
Total liabilities		**8.2**	7.4
Net assets		**16.3**	12.9
Equity attributable to the owners of the Company			
Called up share capital	20	**9.3**	9.3
Share premium	20	**5.4**	5.4
Merger reserve	20	**1.1**	1.1
Capital redemption reserve	20	**0.2**	0.2
Own shares	20	**(1.9)**	(1.9)
Other reserves	20	**0.8**	0.8
Translation reserve	20	**(2.2)**	(1.5)
Retained earnings	20	**3.6**	(0.5)
Total equity		**16.3**	12.9

The financial statements of Elektron Technology plc (registered no. 00448274) were approved by the Board of Directors on 26 June 2019 and were signed on its behalf by:

Keith Daley
Director

Andy Weatherstone
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

year ended 31 January 2019

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Own shares[1] £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Total £m
At 31 January 2017	9.3	5.4	1.1	0.2	(1.9)	0.8	(0.4)	(2.3)	12.2
Profit for the year	—	—	—	—	—	—	—	1.8	1.8
Currency translation differences on foreign currency net investments	—	—	—	—	—	—	(1.1)	—	(1.1)
Total comprehensive income for the year	—	—	—	—	—	—	(1.1)	1.8	0.7
At 31 January 2018	9.3	5.4	1.1	0.2	(1.9)	0.8	(1.5)	(0.5)	12.9
Profit for the year	—	—	—	—	—	—	—	4.1	4.1
Currency translation differences on foreign currency net investments	—	—	—	—	—	—	(0.7)	—	(0.7)
Total comprehensive income for the year	—	—	—	—	—	—	(0.7)	4.1	3.4
At 31 January 2019	**9.3**	**5.4**	**1.1**	**0.2**	**(1.9)**	**0.8**	**(2.2)**	**3.6**	**16.3**

1 The shares held by the Elektron Technology 2012 EBT are treated as treasury shares.

CONSOLIDATED STATEMENT OF CASH FLOWS
year ended 31 January 2019

	Notes	2019 £m	2018 £m
Net cash inflow from operating activities	6	**5.8**	4.1
Investing activities			
Purchase of property, plant and equipment	12	**(0.7)**	(0.4)
Purchase of other intangible assets	11	**—**	(0.4)
Investment in product development projects	11	**(1.5)**	(1.1)
Net proceeds from the sale of businesses	26	**1.3**	2.0
Net cash generated by investing activities		**(0.9)**	0.1
Financing activities			
Decrease in bank loans	18	**—**	(1.5)
Net cash used in financing activities		**—**	(1.5)
Net increase in cash and cash equivalents		**4.9**	2.7
Cash and cash equivalents at the beginning of the year		**5.2**	2.5
Cash and cash equivalents at the end of the year		**10.1**	5.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended 31 January 2019

General information
Elektron Technology plc (the "Group" or "Elektron") is a public limited liability company incorporated in England and Wales and domiciled in the UK. The address of its registered office is Broers Building, JJ Thomson Avenue, Cambridge CB3 0FA. The nature of the Group's operations and its principal activities are set out in the Report of the Directors on pages 30 to 32.

These financial statements are presented in Sterling, the currency of the primary economic environment in which the Group operates, and all values are rounded to the nearest hundred thousand (£0.1m) except where otherwise stated. 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:

Basis of accounting
The consolidated financial statements of Elektron Technology plc have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union.

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.

(a) New standards, interpretations and amendments effective from 1 February 2019
There were no new standards or interpretations effective for the first time for periods beginning on or after 1 February 2018. None of the amendments to standards that are effective from that date had a significant effect on the Group's financial statements.

(b) New standards, interpretations and amendments becoming effective
The following new IASB standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, may have a material impact on these financial statements:

IFRS 15 "Revenue from Contracts with Customers", effective for periods commencing on or after 1 January 2018
The Company has undertaken a detailed review of the impact of IFRS 15, which became effective for the accounting period beginning 1 February 2018, and the impact of the adoption of this standard is not considered material on these financial statements. See below for further details of the company's revenue recognition policy.

IFRS 9 "Financial Instruments", effective for periods commencing on or after 1 January 2018
The Company adopted this standard during the year and it did not impact materially on these financial statements. The Group has applied the simplified model of recognising lifetime expected credit losses for all trade receivables. Further details are set out in Note 16.

IFRS 16 "Leases", effective for periods commencing on or after 1 January 2019
This standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the original lease term is twelve months or less or the leased asset has a low value.

Management is in the process of assessing the full impact of the standard. So far, the Group:

» has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Group has reassessed these leases and concluded they will be recognised on the statement of financial position as a right-of-use asset;

» believes that the most significant impact will be that the Group will need to recognise a right-of-use asset and a lease liability for the office and production buildings currently treated as operating leases. At 31 January 2019 the future minimum lease payments amounted to £5.4m. This will mean that the nature of the expense of the above cost will change from being an operating lease expense to depreciation and interest expense; and

» concludes that there will be no impact to the finance leases currently held on the statement of financial position.

The Group is planning to adopt IFRS 16 on 1 February 2019 using the standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

Management estimates the potential impact of the modified retrospective approach to the operating profit in 2019 would be to transfer 0.2m from being reported as an operating lease cost to being disclosed as an interest charge in the profit and loss, with a net reduction of 0.1m in operating profit.

1. Summary of significant accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the 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:

Critical accounting judgements

Development costs – Under IAS 38, research and development costs, internally generated technology should be capitalised if the capitalisation criteria are met. Assumptions and judgements are made with regard to assessing the expected future economic benefits, the economic useful life and the level of completion of the project. Under IAS 38, at the point where activities no longer relate to development but to maintenance, capitalisation is to be discontinued. In accordance with IAS 38 the Group will only recognise the costs of an intangible asset if and only if:

1. It is more likely than not that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

2. If the costs associated with the potential recognition of an intangible asset do not meet criteria 1 set out above then no intangible asset will be recognised.

3. The above criteria will also need to be satisfied and performed each time an entity incurs potentially eligible expenditures relating to expenditure in connection with a potential acquisition or internally generated expenditure in respect of an intangible asset.

4. The Group's policy which is in accordance with IAS 38 states that if the criteria above are not met at the time that the expenditure is incurred an expense is recognised and such costs are never reinstated as an intangible asset in the future.

The key judgement here is reliably measuring the expenditure attributable to development projects and determining whether the project meets the criteria to recognise an asset. An assessment is made when looking at the costs incurred and criteria for development costs, including the commercial and technical viability of the costs being assessed. The main costs attributed to development costs are that of payroll and dedicated third party resources.

Deferred tax

» the recognition of the deferred income tax asset (Note 14): deferred taxation assets are only recognised for subsidiaries with a past history of profitable trends where there is persuasive and reliable evidence in the form of management accounts and financial projections that taxable profits are anticipated.

Sources of estimation uncertainty

» the recoverability of internally generated intangible assets: at each balance sheet date, the Group reviews the carrying amounts of its internally generated intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Estimated future cash flows deriving from these assets must be determined and an appropriate discount rate applied to calculate present value.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the 2019 review on pages 6 to 11. The principal risks and uncertainties facing the business are described on pages 25 to 27. The Financial review on pages 20 to 22 gives details of the Group's principal banking facilities.

The Directors have prepared and reviewed current cash flow projections for a period not less than twelve months from the approval of the Annual Report. These projections incorporate the acquisition of Next Control Systems Ltd and take account of reasonably possible changes in trading performance, working capital requirements, borrowing facilities and forecast covenant compliance. In the event that actual performance falls below the current forecast levels in this period the Group has a number of mitigating factors available to it and the Board has the required monitoring and controls in place in order to be able to put the necessary actions in place if they see a need to do so.

The Directors have no reason to believe that any of the existing borrowing facilities might be withdrawn or that there would be any other material change in the current financial projections of the Group. As a result the Directors have 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.

Consolidation

The consolidated financial statements incorporate the financial statements of Elektron Technology plc and all subsidiary undertakings drawn up to 31 January each year. Subsidiaries are all entities over which the Group has the power to control 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. Balances between Group companies are eliminated and no profit is taken on intra-group sales.

1. Summary of significant accounting policies continued

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, equity instruments issued and cash paid by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the statement of comprehensive income as incurred.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) "Business Combinations" are recognised at their fair value at the acquisition date.

Other intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the project is technically and commercially feasible;
- the group intends to and has sufficient resources to complete the project; and
- the group has the ability to use or sell the services and product developed.

The cost of acquiring software (including associated implementation costs where applicable) that is not specific to an item of property, plant and equipment is classified as an intangible asset.

Other intangible assets that are separately acquired by the Group are stated at fair value.

Amortisation of intangible assets is charged on a straight line basis over the estimated useful lives of intangible assets determined on an asset-by-asset basis. The estimated useful lives are as follows:

» Computer software	3–10 years
» Marketing, customer and technology-related assets	10–20 years
» Development costs	3–4 years

Property, plant and equipment

The cost of property, plant and equipment is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated on the cost of each property, plant and equipment 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

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. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

Impairment of tangible and intangible assets

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment loss recognised as an operating expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

1. Summary of significant accounting policies continued

Inventories

Inventories are stated 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 first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion.

Employee benefits

Pensions to employees are provided through defined contribution plans.

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.

Share-based employee remuneration

The Group's management awards certain employee incentives from time to time on a discretionary basis and through its Company Share Option Plan (CSOP) and Long Term Incentive Plan (LTIP).

In accordance with IFRS 2 "Share-based Payments", the Group reflects the economic cost of awarding shares and share options to employees by recording an expense in the statement of comprehensive income equal to the fair value of the benefit awarded, fair value being estimated using the Black-Scholes option pricing model. The expense is recognised in the statement of comprehensive income over the vesting period of the award. Equity-settled share-based payments to employees, and others providing similar services, are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 20. For the shares and share options awarded by the Group to employees of subsidiary undertakings using the Company's equity instruments, the fair value of the equity instruments is recognised as a capital contribution to the Company's subsidiary undertakings over the vesting period. The capital contribution is reduced by any payments received from subsidiary undertakings in respect of these share-based payments.

Share capital

(a) Treasury shares

Where the Group purchases its own equity share capital (Treasury shares) the consideration paid, including any directly attributable incremental costs (net of taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled, reissued or disposed of.

(b) Trust shares

The Elektron Technology 2012 Employee Benefit Trust (EBT) uses funds provided by the Group to meet the Group's obligations under the employee share option plans and LTIP. All shares acquired by EBT are purchased on the open market or may be issued directly to EBT at the then market value. Where the Group holds its own equity shares through EBT, these shares are shown as a reduction in equity; consideration paid or received is shown in the reconciliation of equity movements and no gain or loss is recognised within the consolidated income statement or the statement of comprehensive income on the purchase, sale, issue or cancellation of these shares.

Leases

In accordance with IAS 17 "Leases", 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.

Financial liabilities/assets

The Group's financial liabilities are overdrafts, revolving credit and invoice discounting facilities, trade and other payables and finance leasing liabilities. They are included in the balance sheet line items "borrowings" 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 costs" in the statement of comprehensive income.

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 statement of comprehensive income.

Provision against trade receivables represents the expected lifetime credit losses for all trade receivables. The expected lifetime credit loss reflects assumptions on the ageing of overdue debts that may become unrecoverable, based upon historical observed default rates, adjusted for current economic environment.

1. Summary of significant accounting policies continued

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 equity instruments are realised by the employee.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts, and 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. The carrying value of these assets is approximately equal to their fair value.

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

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 based on tax laws and rates that have been enacted at the balance sheet date. 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 statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Revenue recognition

Revenue arises from a number of sources but mainly the manufacture and sale of engineered and ophthalmic products. The Group also sells software as a service and associated hardware as part of a fee-based subscription service. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

To determine whether to recognise revenue, the Group follows a five-step process:

1. identifying the contract with a customer;
2. identifying the performance obligations;
3. determining the transaction price;
4. allocating the transaction price to the performance obligations; and
5. recognising revenue when/as performance obligation(s) are satisfied.

Sale of engineered and ophthalmic products

Revenue from the sales of these products for a fixed price is recognised when the Group transfers control of the assets to the customer. Invoices for goods fall due for settlement upon dispatch to the customer, the customer has full discretion over the use of the components and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Transfer of control does not occur until 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.

Software as a service and associated hardware

The Group recognises revenue depending on the substance and legal form of the contracts with its customers. Revenue is recognised once a legally binding contract between the Group and its customers has been established and the delivery of the service including support and maintenance has commenced. Service delivery is triggered once the associated hardware has been installed and the customer has been provided access to the software. The Group has assessed that the provision of these goods and services represent a single combined performance obligation over which control is considered to transfer over time as the respective elements are considered as being intertwined and therefore inseparable due to their value together. Revenues are recognised monthly as the Group has an enforceable right to payment for contracted services provided. The associated hardware cost is amortised over the expected period of the contract commencing at the point the service has commenced.

1. Summary of significant accounting policies continued

Revenue recognition continued

Software as a service and associated hardware continued

The Group recognises liabilities for consideration received in respect of unsatisfied performance obligations under the service contracts and reports these amounts as part of other creditors.

Installation and consultancy or training service revenues are recognised at the point when the service has been delivered, and are considered as separate performance obligations.

A receivable is recognised when the performance obligations are satisfied (e.g. upon shipment, upon delivery as services are rendered or upon completion of service) as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sales commissions

Sales commission is recognised in the profit and loss in wages and salaries at the point at which the contract is signed and paid once the initial invoice has been collected. This is recognised up front as opposed to deferring this cost over the period of the contract as it is deemed an introductory fee, and is not affected by the future performance of a contract.

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 Sterling, which is the functional currency of the Group 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 is 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.

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.

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. Further details are included in the Report of the 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 that record their results in different local functional currencies. In countries where the Group does not have operations, it frequently 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 Dollar, Euro and Tunisian Dinar.

The Group's policy is 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 statement of comprehensive income and net assets of overseas subsidiaries. The Group's policy is not to hedge the translational exposure that arises on consolidation of the statements of comprehensive income of overseas subsidiaries.

1. Summary of significant accounting policies continued

Financial risk management continued

(ii) Interest rate risk

Interest rate risk arising from borrowing at variable rates is 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 undrawn facilities committed to the Group as at 31 January 2019 are set out in Note 24.

(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 its 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.

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 20.

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.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate line of business or geographical area of operation that has been disposed of, has been abandoned or meets the criteria to be classified as held for sale.

Discontinued operations are presented on the statement of comprehensive income as a separate line and are shown net of tax.

Assets and businesses held for sale

Assets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and gains or losses on subsequent remeasurements are included in the income statement. No depreciation is charged on assets and businesses classified as held for sale.

Assets and businesses are classified as held for sale if their carrying amount will be recovered or settled principally through a sale transaction rather than through continuing use. The asset or business must be available for immediate sale and the sale must be highly probable within one year.

Non-GAAP measure

These financial statements contain references to operating profit before non-recurring or special items, EBITDA and alternate cash measures. These financial measures do not have any standardised meaning prescribed by IFRS and are therefore referred to as non-GAAP measures. The non-GAAP measure used by the Company may not be comparable to similar measures used by other companies.

The definition of operating profit before non-recurring or special items is set out earlier in this note (critical accounting judgements and key sources of estimation uncertainty). The Board believes that this is a useful supplemental metric as it provides an indication of the results generated by the Company's principal business activities prior to consideration of how the results are impacted by one-time exceptional charges.

2. Segmental reporting

The Group has continued to adopt the provisions of IFRS 8 "Operating Segments" and historically shown summary information in respect of these segments. This segmentation is consistent with internal reports to the chief operating decision maker for use in assessing business performance and allocating Group resources. The chief operating decision maker is the Chief Executive of the Group. The activity of each segment is explained in the 2019 review.

	Segment revenue		Operating profit/(loss) before non-recurring or special items		Operating profit/(loss)	
Segment revenues and results of continuing operations	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Bulgin	**30.1**	27.3	**9.0**	7.2	**9.0**	7.2
Checkit	**1.0**	0.5	**(4.5)**	(4.4)	**(4.5)**	(4.4)
EET	**2.6**	2.0	**0.1**	(0.3)	**0.1**	(0.2)
Total	**33.7**	29.8	**4.6**	2.5	**4.6**	2.6
Finance costs (net)					**—**	0.1
Profit before tax					**4.6**	2.7

Revenue reported above represents revenue generated from external customers.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 1.

Segment profit represents the profit earned by each segment, including a share of central administration costs, which is allocated on the basis of actual use or pro rata to sales. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets	**2019 £m**	2018 £m
Bulgin	**18.9**	14.3
Checkit	**3.9**	3.6
EET	**1.7**	1.6
Queensgate Nano[1]	**—**	0.8
Consolidated assets	**24.5**	20.3

1 Assets held for sale.

Segment liabilities	**2019 £m**	2018 £m
Bulgin	**6.8**	6.6
Checkit	**1.0**	0.1
EET	**0.4**	0.7
Consolidated liabilities	**8.2**	7.4

	Depreciation and amortisation[1]		Additions to non-current assets[1]	
Other segment information	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Bulgin	**0.4**	0.7	**0.8**	0.4
Checkit	**1.7**	1.7	**1.3**	0.7
EET	**0.1**	0.1	**0.1**	0.7
Total	**2.2**	2.5	**2.2**	1.8

1 Continuing operations only.

Geographical information

The Group considers its operations to be in the following geographical regions:

	Revenue from external customers		Non-current assets	
	2019 £m	2018 £m	**2019 £m**	2018 £m
United Kingdom	**12.3**	10.7	**3.6**	3.9
Rest of Europe, the Middle East and Africa	**9.7**	8.1	**1.0**	0.8
Asia-Pacific and China	**2.3**	2.4	**—**	—
The Americas	**9.4**	8.6	**—**	—
Total	**33.7**	29.8	**4.6**	4.7

3. Net operating expenses

	2019 £m	2018 £m
Net operating expenses		
Selling and distribution costs	**4.6**	4.4
Administrative expenses	**7.5**	7.9
Operating expenses excluding non-recurring or special items	**12.1**	12.3
Non-recurring or special items (see Note 4)	**—**	(0.1)
Total operating expenses	**12.1**	12.2

Non-recurring or special items are disclosed separately to improve visibility of the underlying business performance.

Management has defined such items as restructuring and site closure costs and other non-recurring items incurred outside the normal course of business.

4. Operating profit – continuing operations

	2019 £m	2018 £m
Operating profit is after charging/(crediting):		
Depreciation on owned property, plant and equipment	**0.4**	0.5
Depreciation on property, plant and equipment held under finance leases	**—**	—
Amortisation of intangible assets	**1.8**	2.0
Impairment of intangible assets	**—**	—
Product development costs expensed	**1.3**	1.5
(Profit)/loss on foreign currency translation	**(0.6)**	(0.5)
Operating lease rentals:		
– land and buildings	**0.5**	0.4
– plant and machinery	**0.1**	—
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual accounts	**—**	—
– fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation	**0.1**	0.1
Total audit fees for audit services	**0.1**	0.1
Tax services	**—**	—
Total auditor's remuneration	**0.1**	0.1
Non-recurring or special items:		
– restructuring release	**—**	0.1
Total non-recurring or special items	**—**	0.1

Included within auditor's remuneration for audit services in 2019 is a sum for less than £0.1m for the audit of overseas subsidiaries carried out by an auditor other than Grant Thornton UK LLP and less than £0.1m payable to Grant Thornton UK LLP, which was appointed as auditor during the year, for the audit of the Company's annual accounts.

No non-audit services were provided in the year by Grant Thornton UK LLP.

In 2018 there was no remuneration for audit services carried out by an auditor other than KPMG LLP and less than £0.1m payable to KPMG LLP for the audit of the Company's accounts. In addition, fees in respect of tax services provided by KPMG LLP were less than £0.1m.

The credit of restructuring costs in 2018 relate to the release of an excess provision made in 2017 for the closure of the Group's facility in Torquay.

5. Finance income

	2019 £m	2018 £m
Bank overdrafts and loans wholly repayable within five years – overcharge refund	**—**	0.1

6. Net cash flows from operating activities

	Note	2019 £m	2018 £m
Profit/(loss) before taxation			
– from continuing operations		**4.6**	2.7
– from discontinued operations	26	**0.4**	(0.3)
Adjustments for:			
Depreciation		**0.4**	0.5
Amortisation of development costs and computer software		**1.8**	2.2
Gain on the sale of discontinued businesses	26	**(0.4)**	(0.6)
Finance income		**—**	(0.1)
Operating cash flow before working capital changes		**6.8**	4.4
(Increase)/decrease in trade and other receivables		**(0.2)**	2.1
Increase in inventories		**(0.6)**	(0.8)
Decrease in trade and other payables		**—**	(0.5)
Operating cash flow after working capital changes		**6.0**	5.2
Increase/(decrease) in provisions		**0.3**	(1.0)
Cash generated by operations		**6.3**	4.2
Tax paid		**(0.5)**	(0.2)
Bank interest overcharge refund		**—**	0.1
Net cash inflow from operating activities		**5.8**	4.1

7. Staff information (including Directors)

Employee costs were:

	Note	2019 £m	2018 £m
Wages and salaries		**7.9**	10.2
Social security costs		**1.0**	1.3
Other pension costs	23	**0.2**	0.2
		9.1	11.7

Redundancy costs of less than £0.1m (2018: £0.1m) were incurred in the year and were included within operating costs.

The average monthly number of people employed by the Group during the year, including Executive Directors, was as follows:

	2019 Number	2018 Number
Administration and sales	**91**	117
Production	**704**	869
	795	986

Details of Directors' remuneration are included in the Remuneration report on pages 33 to 38.

8. Taxation

(a) Analysis of tax charge for the year – continuing operations

	2019 £m	2018 £m
Current taxation:		
UK corporation tax charge on profit for the year	**0.5**	0.4
Overseas corporation tax charge on profit for the year	**0.2**	0.1
Overprovision for prior year – UK	**(0.1)**	—
Total current taxation	**0.6**	0.5
Deferred tax:		
Deferred tax on capitalised development costs	**—**	(0.1)
Origination and reversal of temporary differences	**0.2**	0.2
Under provision in respect of prior years	**—**	0.2
Total deferred taxation	**0.2**	0.3
Tax charge on continuing operations	**0.8**	0.8

(b) Factors affecting taxation charge for the year

The effective tax rate for the year was 19% following a reduction of the rate to 19% on 1 April 2017. A further reduction to 17% from 1 April 2020 has been substantively enacted. UK temporary differences are measured at the rate at which they are expected to reverse. New legislation became effective in April 2017 which restricts the use of brought forward losses in the UK. This will not affect the ability to use recognised deferred tax assets but may affect the period over which the losses can be utilised.

	2019		2018	
	Tax rate	£m	Tax rate	£m
Profit on continuing operations before taxation	**—**	**4.6**	—	2.7
Profit on ordinary activities multiplied by weighted average standard rate of corporation tax in the UK of 19%	**19%**	**0.9**	19.2%	0.5
Effects of:				
Expenses not deductible for tax purposes	**1.1%**	**0.1**	—	—
Profits not subject to tax	**—**	**—**	(3.7)%	(0.1)
Temporary differences not recognised	**(0.4)%**	**(0.1)**	—	—
Effect of overseas tax rates	**(1.0)%**	**(0.1)**	3.7%	0.1
Prior year adjustments	**(1.7)%**	**(0.1)**	3.7%	0.1
Utilisation of tax losses not previously recognised	**0.3%**	**0.1**	6.7%	0.2
	17.3%	**0.8**	29.6%	0.8

(c) Factors that may affect future taxation charges

Deferred taxation assets amounting to £0.7m (2018: £0.8m) have not been provided in respect of unutilised income tax losses of £4.1m (2018: £4.7m) that can only be carried forward against future taxable income of that same trade as there is currently insufficient evidence that these assets will be recovered.

9. Dividends paid

No interim or final dividend was paid for the year ended 31 January 2019 (2018: £nil).

10. Earnings per share

Earnings per share (EPS) is the amount of post-tax profit attributable to each share (excluding those held in the Employee Benefit Trust or by the Company). Basic EPS measures are calculated as the Group profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS takes into account the dilutive effect of all outstanding share options priced below the market price, in arriving at the number of shares used in its calculation.

Both of these measures are also presented on an adjusted basis, to remove the effects of non-recurring or special items, being items of both income and expense which are sufficiently large, volatile or one-off in nature, to assist the reader of the financial statements to get better understanding of the underlying performance of the Group. The note below demonstrates how this calculation has been performed.

	Key	2019 m	2018 m
Weighted average number of shares for the purpose of basic earnings per share	A	**177.7**	177.9
Dilutive effect of employee share options		**10.4**	9.2
Weighted average number of shares for the purpose of diluted earnings per share	B	**188.1**	187.1

	Key	£m	£m
Profit for the year		**4.1**	1.8
(Profit)/loss from discontinued operations, net of tax		**(0.3)**	0.1
Continuing profit for the year attributable to equity shareholders	C	**3.8**	1.9
Total non-recurring or special items included in profit before tax		**—**	(0.1)
Earnings for adjusted EPS	D	**3.8**	1.8

	Key	2019	2018
EPS measures			
Basic continuing EPS	C/A	**2.1p**	1.1p
Diluted continuing EPS	C/B	**2.0p**	1.0p
Adjusted EPS measures			
Adjusted basic continuing EPS	D/A	**2.1p**	1.0p
Adjusted diluted continuing EPS	D/B	**2.0p**	1.0p

Discontinued earnings per share

Basic and diluted discontinued profit per share was 0.2 pence (2018: loss per share 0.1 pence).

11. Other intangible assets

	Development costs £m	Computer software £m	Acquired intangible assets £m	Total £m
Cost				
At 1 February 2017	8.0	1.9	—	9.9
Additions	1.1	—	0.4	1.5
Reclassified as assets held for sale	(1.8)	—	—	(1.8)
Disposals	(0.2)	—	—	(0.2)
At 31 January 2018	7.1	1.9	0.4	9.4
Additions	1.5	—	—	1.5
Reclassified as assets held for sale	—	—	—	—
Disposals	(0.5)	—	(0.1)	(0.6)
At 31 January 2019	**8.1**	**1.9**	**0.3**	**10.3**
Amortisation				
At 1 February 2017	4.1	1.5	—	5.6
Charge for the year	1.8	0.4	—	2.2
Reclassified as assets held for sale	(1.4)	—	—	(1.4)
Disposals	(0.2)	—	—	(0.2)
At 31 January 2018	4.3	1.9	—	6.2
Charge for the year	1.7	—	0.1	1.8
Reclassified as assets held for sale	—	—	—	—
Disposals	(0.5)	—	(0.1)	(0.6)
At 31 January 2019	**5.5**	**1.9**	**0.0**	**7.4**
Carrying amount				
At 1 February 2017	3.9	0.4	—	4.3
At 31 January 2018	2.8	—	0.4	3.2
At 31 January 2019	**2.6**	**—**	**0.3**	**2.9**

Development cost additions by project	**2019 £m**	2018 £m
Bulgin	**0.1**	0.1
EET	**0.1**	0.2
IMC	**—**	0.1
Checkit	**1.3**	0.7
Total development cost additions	**1.5**	1.1

	Cost value		Net book value	
Total amounts by project	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Bulgin	**1.4**	1.1	**0.2**	0.2
EET	**0.5**	1.1	**0.4**	0.3
Checkit	**6.2**	4.9	**2.0**	2.3
Total development costs	**8.1**	7.1	**2.6**	2.8

Acquired intangible assets are made up of purchased intellectual property for the EET business.

The Group has tested the development costs and acquired intangibles for impairment and no impairment was considered necessary in 2019.

The Group has prepared cash flow forecasts derived from the most recent financial budgets and high-level plans approved by the Board. The forecasts reflect the trading conditions experienced in the current year, where relevant, and these forecasts have been used in the value-in-use calculation.

The key assumptions to which the value-in-use calculation is most sensitive are those regarding the discount rates, and growth rates.

The pre-tax rate used to discount forecast cash flows is 11.5% (2018: 11.5%), which is deemed to be the Group's weighted average cost of capital.

11. Other intangible assets continued

Bulgin and EET

In the case of Bulgin and EET forecasts for the period to 31 January 2024, assuming no growth in cash flows thereafter, have been used.

Checkit

As Checkit is in the scale-up phase, cash flow forecasts have been extended out a further three years to 2027. The Group's pre-discount weighted cost of capital of 11.5% has been applied to these forecasts. The higher risk associated with the Checkit business and the use of a longer forecast period have been built into the impairment review by applying a discount rate to the future forecast cash flow.

Revenue growth is a key factor for Checkit, and the timing and amount of that revenue growth is uncertain at this point in time, as would be the case of any business at this point in its development. However, based on the forecast business plans it is deemed that the risk is mitigated to a sufficient degree but there is still an order pipeline conversion risk that remains. This is considered a key risk in determining value in use. As such the cash flow forecasts have been subject to a rising level of discount from FY23 onwards rising from 25% to 70% over the forecast period from FY23 to FY27 to reflect the uncertainty of future revenue growth.

For an impairment to be considered, underlying forecast revenues would need to fall by 23%, but this impairment risk is mitigated in the main by the discount rate included in the forecast noted above.

In respect of the discount rate applied to the future cash flows the pre-tax discount rate applied to Checkit would have to be in excess of 23% in order for an impairment to be considered.

12. Property, plant and equipment

	Leasehold improvements £m	Plant and machinery £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost				
At 1 February 2017	0.8	8.8	2.4	12.0
Additions	0.2	0.2	—	0.4
Reclassified as assets held for sale	—	—	(0.2)	(0.2)
Disposals	(0.1)	(2.0)	(0.1)	(2.2)
At 31 January 2018	0.9	7.0	2.1	10.0
Additions	—	0.6	0.1	0.7
Currency revaluation	(0.1)	(0.1)	—	(0.2)
Disposals	—	(0.4)	(0.7)	(1.1)
At 31 January 2019	**0.8**	**7.1**	**1.5**	**9.4**
Depreciation				
At 1 February 2017	0.4	7.6	2.0	10.0
Charge for the year	0.1	0.3	0.1	0.5
Reclassified as assets held for sale	—	—	(0.1)	(0.1)
Disposals	—	(1.9)	(0.0)	(1.9)
At 31 January 2018	0.5	6.0	2.0	8.5
Charge for the year	0.1	0.2	0.1	0.4
Currency revaluation	(0.1)	(0.1)	—	(0.2)
Disposals	—	(0.4)	(0.6)	(1.0)
At 31 January 2019	**0.5**	**5.7**	**1.5**	**7.7**
Net book value				
At 1 February 2017	0.4	1.2	0.4	2.0
At 31 January 2018	0.4	1.0	0.1	1.5
At 31 January 2019	**0.3**	**1.4**	**—**	**1.7**

The net book value of tangible fixed assets held under finance leases and hire purchase contracts was £nil (2018: £nil).

13. Investment in subsidiary undertakings

The subsidiary undertakings at 31 January 2019 were:

Name	Registered office	Country of incorporation	Nature of business	Shares held by parent	Shares held by Group
Elektron Technology UK Ltd	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Design, manufacture and sale of electromechanical components	100%	100%
Elektron Technology Corporation	11849 Telegraph Road, Santa Fe Springs, California 90670, USA	USA	Sale of electromechanical components and instrumentation products	100%	100%
Elektron Tunisie Sarl	16 Rue 62127 Industrial Zone Ibn Khaldoun, Cite Ettahrir, Tunisia	Tunisia	Manufacture of electromechanical components	100%	100%
Checkit Limited	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Web-based service for work management and automated monitoring	0%	100%
Checkit Inc	11849 Telegraph Road, Santa Fe Springs, California 90670, USA	USA	Web-based service for work management and automated monitoring	100%	100%
Elektron Eye Technology Ltd	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Design, manufacture and sale of ophthalmic products	0%	100%
Elektron Eye Technology Inc	11849 Telegraph Road, Santa Fe Springs, California 90670, USA	USA	Sale of ophthalmic products	100%	100%
Elektron Technology PTE Ltd	Room 2124 Centennial Tower, 3 Temasek Avenue, Singapore 039190	Singapore	Dormant company	100%	100%
Elektron Technology (Shanghai) Trading Limited	Suite 802, 568 Hengfeng Road, Jin An Dist, Shanghai, China	China	Dormant company	100%	100%
Hartest Precision Instruments Limited	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Dormant company	0%	100%
Hartest Precision Instruments India Private Limited	304, Plot No.7, Mahajan Tower LSC, Shreshtha, Vihar, Delhi-110092	India	Dormant company	100%	100%
Elektron Precision Instruments Limited	Broers Building, JJ Thomson Avenue, Cambridge CB3 0FA	England and Wales	Dormant company	0%	100%
Bulgin Ltd	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Dormant company	0%	100%
Elektron Enterprises 1 Limited	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Dormant company	0%	100%
Elektron Technology 2012 Employee Benefit Trust	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Trust to hold shares to satisfy employee share benefit plans	100%	100%

All subsidiary undertakings are operated primarily in the country of incorporation.

During the year the trade and assets of Elektron Eye Technology were transferred from Elektron Technology Limited to a newly created wholly owned subsidiary, Elektron Eye Technology Limited.

14. Deferred tax

	2019 £m	2018 £m
Deferred tax assets recoverable after more than one year	**0.4**	0.6

The gross movement on the deferred tax asset is as follows:

	Notes	2019 £m	2018 £m
At 1 February 2018		**0.6**	0.9
Deferred tax on capitalised development costs	8a	**(0.2)**	0.1
Deferred tax on losses utilised	8a	**—**	(0.2)
Origination and reversal of other temporary differences	8a	**—**	(0.2)
At 31 January 2019		**0.4**	0.6
This is made up of the following:			
Depreciation in excess of capital allowances		**0.3**	0.4
Deferred tax on capitalised development costs		**(0.4)**	(0.3)
Other short-term temporary differences		**0.2**	0.2
Taxation losses		**0.3**	0.3
		0.4	0.6

Deferred taxation assets have only been recognised for subsidiaries with a past history of profitable trends where there is persuasive and reliable evidence in the form of management accounts and financial projections that taxable profits are anticipated to arise in the foreseeable future. Deferred taxation assets have not been provided in respect of unutilised income tax losses that can be carried forward against future taxable income as there is currently uncertainty over their offset against future taxable profits and therefore their recoverability.

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 £6.2m (2018: £7.0m).

15. Inventories

	2019 £m	2018 £m
Raw materials	**2.6**	2.4
Work in progress	**0.3**	0.3
Finished goods and goods for resale	**1.4**	1.3
	4.3	4.0

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 less than £0.1m in the year (2018: less than £0.1m), which are included within operating profit.

The amount of inventory recognised as an expense within the cost of sales amounted to £10.9m (2018: £11.6m).

16. Trade and other receivables

	2019 £m	2018 £m
Gross trade receivables	**3.6**	3.8
Less: expected credit losses	**(0.1)**	—
Trade receivables – net	**3.5**	3.8
Other receivables	**0.7**	0.3
Prepayments	**0.9**	0.9
	5.1	5.0

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

16. Trade and other receivables continued

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables, as these do not have a significant financing component. The expected lifetime credit losses reflect assumptions on the ageing of the overdue debts that may become unrecoverable, equivalent to a total Group rate of 1.8% (2018: 0.7%). The provision is based upon historical observed default rates over the expected life of trade receivables, adjusted for an assessment of the current economic environment.

Trade receivables can be analysed as follows:

	2019 £m	2018 £m
Not past due	**3.0**	3.6
Past due but not impaired	**0.5**	0.2
Past due and impaired	**0.1**	—
	3.6	3.8

The ageing of trade receivables classed as past due but not impaired is as follows:

	2019 £m	2018 £m
Up to one month past due	**0.2**	0.1
Over one month past due	**0.3**	0.1
	0.5	0.2

Trade receivables are normally due within 30 to 90 days and do not bear any effective interest rate. Failure to receive payment within 180 days of payment due date is considered indication of no reasonable expectation of recovery. 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 receivable days are 38 days (2018: 40 days).

Trade receivables of £0.1m (2018: £0.0m) are considered potentially impaired.

Ageing of balances with expected credit losses is as follows:

	Expected credit loss	
	2019 £m	2018 £m
Not past due	**—**	—
Between one month and two months past due	**—**	—
Over two months past due	**0.1**	—
	0.1	—

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

	Expected credit loss	
	2019 £m	2018 £m
At 1 February 2018	**—**	—
Increase in provision	**0.1**	—
At 31 January 2019	**0.1**	—

The gross carrying amounts of trade and other receivables are denominated in the following currencies:

	2019 £m	2018 £m
Sterling	**2.4**	2.4
US Dollar	**1.3**	1.0
Euro	**0.6**	0.6
Other	**—**	0.1
	4.3	4.1

17. Trade and other payables

	2019 £m	2018 £m
Trade payables	**3.1**	2.8
Other payables	**1.0**	1.1
Accruals and deferred income	**2.5**	2.3
	6.6	6.2

Management considers the carrying amounts of trade and other payables recognised in the balance sheet to be a reasonable approximation of their fair value.

Trade payable days are 66 days (2018: 68 days).

18. Borrowings

Bank overdrafts and invoice discounting facilities of £nil (2018: £nil) are secured by debentures and fixed charges over certain Group assets. Balances have been offset where appropriate.

Bank overdrafts and invoice discounting facilities attract interest at 2.5% and 3.25% above the currency base rate.

The Group has invoicing discount facilities of up to £5m and overdraft facilities of £0.1m as at 31 January 2019. Since the year end the overdraft facilities were increased to £3m.

19. Provisions

	2019 £m	2018 £m
Current	**1.0**	0.7
Non-current	**0.3**	0.3
	1.3	1.0

	Credit note provision £m	Product rectification and commercial disputes £m	Dilapidation costs £m	Total £m
At 1 February 2018	0.5	0.2	0.3	1.0
Increase in provision	0.2	0.1	—	0.3
At 31 January 2019	**0.7**	**0.3**	**0.3**	**1.3**
Anticipated utilisation				
Within one year	0.7	0.3	—	1.0
Beyond one year	—	—	0.3	0.3

The dilapidation costs relate to redecoration, maintenance and reinstatement costs required to meet the terms of property leases held by the Group.

Product rectification and commercial dispute provisions relate to costs required to meet potential costs of replacing faulty and legal and estimated settlement costs arising on disputed commercial agreements.

The credit note provision reflects management estimates based upon the business operations and experience of credit notes issued to customers in respect of customer stock returns and rebates under the terms agreed with individual customers.

20. Share capital and reserves

Share capital

	2019 £m	2018 £m
Authorised		
200,000,000 (2018: 200,000,000) ordinary shares of 5 pence each	**10.0**	10.0
Allotted, called up and fully paid		
186,100,851 (2018: 186,100,851) ordinary shares of 5 pence each	**9.3**	9.3

Of the allotted, called up and fully paid share capital, 7,769,811 shares (2018: 8,099,811) are held by the Elektron Technology 2012 Employee Benefit Trust (EBT) and are treated as Treasury shares. Excluding these shares, the issued share capital at 31 January 2019 was 178,331,040 (2018: 178,001,040).

The mid-market price of the ordinary shares at 31 January 2019 was 43.31 pence per share and the range during the year was 20.6 pence per share to 48.5 pence per share.

20. Share capital and reserves continued

Market value options

As part of the unwind of the JSOP, on 28 July 2016 Messrs Keith Daley and John Wilson were awarded market value options (mid-market price at close of business on immediately preceding dealing day) of 3,541,500 shares and 2,941,500 shares respectively which can be bought from the EBT at any time. At 31 January 2018 remaining options amounted to 1,899,161 outstanding for Messrs Keith Daley and John Wilson.

Share options

Elektron Technology plc Company Share Option Plan (CSOP)

			Number of options	
Year of grant	Exercise period	Option price	**2019 '000**	2018 '000
2015	2017–2023	8.00p	**1,130**	1,520
2016	2019–2026	5.25p	**571**	571
2017	2020–2027	16.87p	**1,055**	1,355

The weighted average exercise price of all options under the CSOP is 10.8 pence (2018: 11.0 pence).

Movement in share options during the year:

	2019		2018	
	No. of shares '000	**Weighted average**	No. of shares '000	Weighted average
Outstanding at beginning of the year	**3,446**	**11.0p**	2,761	7.6p
Granted during the year	**—**	**—**	1,355	16.9p
Exercised during the year	**(330)**	**(10.7)p**	—	—
Forfeited during the year	**(360)**	**(12.9)p**	(670)	(8.9)p
Outstanding at the year end	**2,756**	**10.8p**	3,446	11.0p
Exercisable at the end of the period	**1,130**	**8.0p**	—	—

During the year, 360,000 (2018: 670,000) share options lapsed as a result of employees leaving the Group and 330,000 share options were exercised by employees (2018: nil).

Elektron stock appreciation options

Options in the form of stock appreciation rights not included in the above table over 230,000 shares were granted in October 2015 for employees outside the UK. The exercise period for these options is 2018–2025 and the exercise price is 8.00 pence.

Valuation of share awards

Share-based payments, including awards under the CSOP, and the stock appreciation options are valued using an independent probability valuation model and take account of performance criteria (if any).

The Group recognised a charge of less than £0.1m in the year (2018: less than £0.1m).

Reserves

The nature of the reserves shown in the consolidated balance sheet and consolidated statement of changes in equity is as follows:

Share premium
Amount subscribed for share capital in excess of nominal value.

Merger reserve
Amount arising on an acquisition in prior years satisfied substantially by the issue of share capital and thereby eligible for merger relief under the provisions of Section 612 of the Companies Act 2006.

Capital redemption reserve
The cumulative nominal value of own shares acquired by the Company.

Own shares
The value of the Company's shares held by the Elektron Technology 2012 EBT.

Translation reserve
Gains and losses arising on retranslating the net assets of overseas operations into Sterling of £2.2m losses (2018: losses £1.5m).

Other reserves
A reserve arising from the application of IFRS 2 "Share-based Payments".

Retained earnings
Cumulative gains and losses recognised in the consolidated statement of comprehensive income not included above.

21. Capital commitments

Expenditure sanctioned but not contracted for amounted to less than £0.1m (2018: less than £0.1m), and expenditure contracted but not provided for in the financial statements amounted to £nil (2018: £nil).

22. Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2019 £m	2018 £m	**2019 £m**	2018 £m
No later than one year	**1.1**	1.1	**0.1**	0.1
Later than one year and no later than five years	**3.1**	3.6	**0.2**	0.2
Later than five years	**0.9**	1.5	**—**	—
	5.1	6.2	**0.3**	0.3

23. Retirement benefit schemes

The Group operates a Group Personal Pension Plan (which is a defined contribution scheme) for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees.

Contributions to the Group Personal Pension Plan and to other personal pension plans are charged to the statement of comprehensive income as they become payable. The pension cost charge for the year was £0.2m (2018: £0.2m) and outstanding contributions at the year end amounted to less than £0.1m (2018: less than £0.1m).

24. 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 derivative 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 are subject to regular monitoring and review, and remain unchanged since 2012. Operations are financed through working capital management and short-term flexibility is achieved by revolving credit and invoice discounting facilities.

Treasury matters are dealt with on a Group basis and are approved by the Board. At 31 January 2019 gross gearing on net assets was nil% (2018: nil%).

(ii) Financial assets

Details of trade and other receivables are provided in Note 16. The only other current financial asset held is cash and cash equivalents. The cash balances as at 31 January 2019 are detailed below:

	2019 £m	2018 £m
US Dollar	**1.9**	0.7
Tunisian Dinar	**0.1**	0.1
Indian Rupee	**0.1**	0.1
Euro accounts	**1.1**	0.6
Pound Sterling	**6.9**	3.7
	10.1	5.2

(iii) Financial 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 2019 the Group had no borrowings.

(iv) Maturity

All financial liabilities excluding deferred/contingent consideration are contractually due within six months.

24. Financial assets and liabilities continued

(v) Fair value of financial assets and liabilities

IFRS 7 "Financial Instruments" requires disclosure of fair value measurements by the level of the following fair value measurement hierarchy:

» quoted prices (unadjusted) in active markets (Level 1);

» inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (Level 2); and

» inputs for the asset or liability that are not based on observable market data (Level 3).

The only applicable financial asset relates to deferred consideration arising from the sales of Agar Scientific in 2017 and Queensgate Nano in 2019 (see Note 26). This deferred consideration outstanding at 31 January 2019 amounts to £0.1m (2018: £0.2m) for Agar Scientific and £0.2m for Queensgate Nano. Each is considered to be a Level 3 financial asset measured at fair value.

(a) The following table shows the valuation techniques used in measuring this Level 3 fair value as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Interrelationship between significant unobservable inputs and fair value measurements
Agar Scientific (sold in 2017) – deferred consideration	Discounted cash flows	Cash receipts for deferred consideration receivable on a monthly basis; therefore, as the only potential variable is the timing of revenue received, no other significant unobservable inputs exist	Not applicable
Queensgate Nano – deferred consideration	Discounted cash flows	Timing of receipt	Not applicable

(b) Sensitivity analysis

There is no reasonably possible change that would cause a significant difference in the value of consideration receivable as the only variable is the timing of revenue received.

(vi) Committed undrawn borrowing facilities

At the year end the Group had committed undrawn facilities of £0.9m (2018: £0.8m) that related to revolving credit, invoice discounting, leasing and overdraft facilities repayable on demand in the event of any breaches in the covenants given by the Group.

(vii) Currency risk

The Group's principal currency risk comprises translational and transactional risk from its exposure to movements in US Dollar, Euro and Tunisian Dinar. The transactional exposure at the year end arises on net trading assets analysed below, being trade and other receivables, cash and cash equivalents, and trade and other payables. Translational exposure arises on the foreign entity total equity also analysed below:

	Net trading assets		Total equity	
	2019 £m	2018 £m	**2019 £m**	2018 £m
US Dollar	**3.0**	1.4	**0.8**	0.5
Euro	**1.6**	1.1	**—**	—
Tunisian Dinar	**—**	0.1	**5.1**	4.9
	4.6	2.6	**5.9**	5.4

The Group does not trade in derivatives or make speculative hedges. At 31 January 2019 the Group had no commitments under non-cancellable forward contracts (2018: £nil).

24. Financial assets and liabilities continued

(viii) Sensitivity analysis

The Group considers that the most significant foreign exchange risk relates to the US Dollar, Euro and Tunisian Dinar. The Group's sensitivity to a 10% strengthening in UK Sterling against each of these currencies (with all other variables held constant) is as follows:

Transactional sensitivity	2019 £m	2018 £m
Decrease in net trading assets (at spot rates)		
US Dollar: UK Sterling	**0.3**	0.1
Euro: UK Sterling	**0.2**	0.1
Tunisian Dinar: UK Sterling	**—**	—

Translational sensitivity	2019 £m	2018 £m
Decrease in adjusted operating profit (at average rates)		
US Dollar:UK Sterling	**—**	—
Euro:UK Sterling	**—**	—
Tunisian Dinar:UK Sterling	**0.1**	0.1
Decrease in total equity (at spot rates)		
US Dollar:UK Sterling	**0.1**	0.1
Euro:UK Sterling	**—**	—
Tunisian Dinar:UK Sterling	**0.5**	0.5

(ix) Categories of financial instruments

Financial assets held at amortised cost	2019 £m	2018 £m
Cash and bank balances	**10.1**	5.2
Trade and other receivables (Note 16)	**4.2**	4.1
	14.3	9.3

Financial liabilities held at amortised cost	2019 £m	2018 £m
Trade and other payables (Note 17)	**4.1**	3.9

25. Related party transactions

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

(b) The Group's nominated adviser is N+1 Singer. Peter Welch, a Non-executive Director until 31 January 2019, currently acts as a consultant for N+1 Singer on a part-time basis. Fees paid to N+1 Singer amounted to £19k (2018: £120k).

(c) Key management of the Group are the executive members of the Board of Directors and senior management of the Group business segments. Key management personnel remuneration includes the following expenses:

	2019 £m	2018 £m
Short-term employee benefits:		
Salaries including bonuses	**1.5**	1.8
Social security costs	**0.2**	0.2
Company benefits (car, PMI, etc.)	**0.1**	0.1
Post-employment benefits:	**1.8**	2.1
Defined contribution pension plans	**0.1**	0.1
Termination benefits	**—**	0.1
Total remuneration	**1.9**	2.3

Share based payments to key management are less than £0.1m (2018: less than £0.1m).

26. Discontinued operations

The discontinued operation in the current year is comprised of the Queensgate Nano brand, sold on 15 February 2018.

Discontinued operations in 2018 comprise the Digitron, Titman Tip Tools Limited, Sheen Instruments Limited and Elektron Medical brands. The prior year balances have been restated in respect of any operations which became discontinued in the course of the current year as set below:

A deferred consideration of £0.1m was received in respect of the Group sale of Agar Scientific in 2016, leaving a balance of £0.1m to be received.

When added to the £1.2m received in 2019 for Queensgate Nano (see below) cash proceeds for the sale of businesses of £1.3m were received in 2019.

Summary

The profit from discontinued operations comprises:

	2019 £m	2018 £m
Operating loss	**—**	(0.9)
Attributable tax	**—**	0.2
Loss after tax	**—**	(0.7)
Gain on disposal of discontinued operation	**0.4**	0.6
Attributable tax expense	**(0.1)**	—
Profit/(loss) from discontinued operations attributable to equity shareholders	**0.3**	(0.1)

Queensgate Nano

The results of the Queensgate Nano discontinued operation, which have been included in the consolidated statement of comprehensive income, were as follows:

	2019 £m	2018 £m
Revenue	**—**	0.8
Expenses	**—**	(1.7)
Loss before tax	**—**	(0.9)
Attributable tax	**—**	0.2
Loss from discontinued operations attributable to equity shareholders	**—**	(0.7)

During the year, Queensgate Nano used less than £0.1m (2018: used £0.7m) of the Group's net operating cash flows, paid less than £0.1m (2018: paid £0.1m) in respect of investing and paid less than £0.1m (2018: less than £0.1m) in respect of financing activities.

Expenses of discontinued operations in the year to 31 January 2019 included £nil classified as non-recurring or special items (2018: £nil).

On 15 February 2018, the Group completed the disposal of business and certain assets of the Queensgate Nano brand for initial proceeds of £0.8m. Under the terms of the sale the Group received a further £0.6m based on Queensgate Nano's sales revenues achieving certain targets in the twelve months after completion.

Details of the disposal of Queensgate are set out below:

	2019 £m
Property, plant and equipment	**0.1**
Development costs	**0.4**
Inventories	**0.4**
Total assets sold	**0.9**
Cost of disposal	**0.1**
Net gain on disposal	**0.4**
Total consideration	**1.4**
Satisfied by:	
Cash and cash equivalents	**1.2**
Deferred consideration	**0.2**
Total consideration	**1.4**

26. Discontinued operations continued

Elektron Medical

The results of the Elektron Medical discontinued operation, which have been included in the consolidated statement of comprehensive income, were as follows:

	2018 £m
Revenue	0.4
Expenses	(0.3)
Operating profit	0.1
Attributable tax expense	—
Gain from discontinued operations attributable to equity shareholders	0.1

During the year, Elektron Medical contributed £nil (2018: £0.1m) to the Group's net operating cash flows, paid £nil (2018: less than £0.1m) in respect of investing and paid £nil (2018: less than £0.1m) in respect of financing activities.

Sheen Instruments

The results of the Sheen Instruments discontinued operation, which have been included in the consolidated statement of comprehensive income, were as follows:

	2018 £m
Revenue	1.7
Expenses	(1.9)
(Loss) before tax	(0.2)
Gain on disposal of discontinued operations	0.7
Gain from discontinued operations attributable to equity shareholders	0.5

During the year, Sheen used £nil (2018: used £0.2m) of the Group's net operating cash flows, paid £nil (2018: paid £nil) in respect of investing and paid £nil (2018: paid £nil) in respect of financing activities.

Expenses of discontinued operations in the year to 31 January 2019 included £nil classified as non-recurring or special items (2018: £nil).

Details of the disposal of Sheen are set out below:

	2018 £m
Property, plant and equipment	—
Inventories	0.4
Trade and other receivables	0.3
Trade and other payables	(0.3)
Assets sold	0.4
Net gain on disposal	0.7
Total consideration	1.1
Satisfied by:	
Cash and cash equivalents	1.1
Total consideration	1.1

26. Discontinued operations continued

Titman Tip Tools

The results of the Titman Tip Tools discontinued operation, which have been included in the consolidated statement of comprehensive income, were as follows:

	2018 £m
Revenue	1.0
Expenses	(0.9)
Profit before tax	0.1
Loss on disposal of discontinued operations	(0.1)
Gain from discontinued operations attributable to equity shareholders	—

During the year, Titman Tip Tools contributed £nil (2018: £0.1m) to the Group's net operating cash flows, paid £nil (2018: paid £nil) in respect of investing and paid £nil (2018: paid £nil) in respect of financing activities.

Expenses of discontinued operations in the year to 31 January 2019 included £nil classified as non-recurring or special items (2018: £nil).

Details of the disposal of Titman Tip Tools are set out below:

	2018 £m
Property, plant and equipment	0.1
Inventories	0.3
Trade and other receivables	0.3
Trade and other payables	(0.1)
Assets sold	0.6
Net loss on disposal	(0.1)
Total consideration	0.5
Satisfied by:	
Cash and cash equivalents	0.5
Total consideration	0.5

Digitron

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

	2018 £m
Revenue	0.3
Expenses	(0.3)
Profit before tax	—
Gain from discontinued operations attributable to equity shareholders	—

During the year, Digitron contributed £nil (2018: less than £0.1m) to the Group's net operating cash flows, paid £nil (2018: £nil) in respect of investing and paid £nil (2018: £nil) in respect of financing activities.

Expenses of discontinued operations in the year to 31 January 2019 included £nil classified as non-recurring or special items (2018: £nil).

Details of the disposal of Digitron are set out below:

	2018 £m
Inventories	0.3
Total assets sold	0.3
Net gain on disposal	—
Total consideration	0.3
Satisfied by:	
Cash and cash equivalents	0.3

27. Non-recurring or special items

Non-recurring or special items in FY18 relate to a release of an excess restructuring cost provision made in FY17 for the closure of the Group's facility in Torquay.

28. Post balance sheet events

Subsequent to the year end the Group completed the acquisition of Next Control Systems Limited ("Next") on 15 May 2019, for a consideration of £8.8m.

Next is an excellent strategic fit for Checkit, providing technology and software that enable management teams to monitor, control and optimise business processes. Next will be combined with Checkit to create a global leader in the field of real-time operations management. It adds scale and one which the Board believes will significantly accelerate the path to profitability of Checkit.

Next is a leader in high-end service-based temperature monitoring for healthcare and life sciences and provides data-related Building Energy Management System (BEMS) services. It has a major relationship with a leading UK retailer covering smart building and plant technologies.

In the year ending 31 December 2018 Next Control Systems' audited operating profit was £1.2m on turnover of £10.7m (2017: £1.2m on turnover of £9.8m). Next's 2018 audited accounts state that 57% of income (2017: 54%) was in the form of recurring revenue relating to software services provided. The remaining income related to one-off charges for consultancy and other IoT services and hardware.

The management accounts for the four months to 30 April 2019 show an operating profit of £0.5m year to date on turnover of £3.7m (2018: £0.4m on turnover of £3.3m). It is expected that the acquisition will be immediately earnings accretive for Elektron in the current financial year.

Audited net assets (excluding cash) were £1.7m at 31 December 2018.

The acquisition of Next was funded from the Group's existing cash reserves which as at 31 January 2019 stood at £10.1m. The Group has taken the opportunity to put in a place a £3m bank overdraft facility which, combined with its existing invoice discount facilities of up to £5m, will provide the Group with up to £8m of facilities for working capital purposes.

The initial accounting for the business combination is incomplete given the timing of the acquisition.

29. Non-GAAP performance measures

A reconciliation of non-GAAP performance measures to reported results is set out below:

i) Profit measures – EBITDA

	2019 Business ex. Checkit £m	**2019 Checkit £m**	**2019 Total £m**	2018 Business ex. Checkit £m	2018 Checkit £m	2018 Total £m
EBITDA	**9.6**	**(2.8)**	**6.8**	7.8	(2.7)	5.1
Depreciation and amortisation	**(0.5)**	**(1.7)**	**(2.2)**	(0.8)	(1.7)	(2.5)
Reported operating profit/(loss) for the year	**9.1**	**(4.5)**	**4.6**	7.0	(4.4)	2.6

ii) Cash measures – cash generated/(used) before working capital

	FY2019				FY2018			
	Operating profit/(loss) £m	**EBITDA £m**	**Capital expenditure, including IP purchase £m**	**Cash generated/ (used) before working capital £m**	Operating profit/(loss) £m	EBITDA £m	Capital expenditure, including IP purchase £m	Cash generated/ (used) before working capital £m
Bulgin	**9.0**	**9.4**	**(0.8)**	**8.6**	7.2	7.9	(0.4)	7.5
Checkit	**(4.5)**	**(2.8)**	**(1.3)**	**(4.1)**	(4.4)	(2.7)	(0.7)	(3.4)
EET	**0.1**	**0.2**	**(0.1)**	**0.1**	(0.2)	(0.1)	(0.7)	(0.8)
Continuing operations	**4.6**	**6.8**	**(2.2)**	**4.6**	2.6	5.1	(1.8)	3.3
Discontinued operations	**—**	**—**	**—**	**—**	(0.9)	(0.7)	(0.1)	(0.8)
	4.6	**6.8**	**(2.2)**	**4.6**	1.7	4.4	(1.9)	2.5
Working capital movement				**(0.8)**				0.3
Movement in provisions				**0.3**				(0.5)
Taxation paid				**(0.5)**				(0.2)
Bank interest				**—**				0.1
Sale of businesses				**1.3**				2.0
Decrease in bank loans				**—**				(1.5)
Net increase in cash and cash equivalents				**4.9**				2.7

PARENT COMPANY BALANCE SHEET
as at 31 January 2019

	Notes	2019 £m	2018 £m
Fixed assets			
Investments in subsidiary undertakings	3	**13.8**	13.8
		13.8	13.8
Current assets			
Debtors	4	**1.3**	0.6
Cash in hand and at bank		**0.2**	0.1
		1.5	0.7
Creditors: amounts falling due within one year	5	**(2.5)**	(1.4)
Net current (liabilities)/assets		**(1.0)**	(0.7)
Total assets less current liabilities		**12.8**	13.1
Net assets		**12.8**	13.1
Capital and reserves			
Called up share capital	6	**9.3**	9.3
Share premium	6	**5.4**	5.4
Merger reserve	6	**1.1**	1.1
Capital redemption reserve	6	**0.2**	0.2
Other reserves	6	**2.0**	2.0
Profit and loss account	6	**(5.2)**	(4.9)
Shareholders' funds		**12.8**	13.1

The parent company's loss for the financial year amounted to £0.3m (2018: £0.1m profit).

The notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 26 June 2019 and were signed on its behalf by:

Other reserves include own shares of £1.6m (2018: £1.6m).

Keith Daley
Director

Andy Weatherstone
Director

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

year ended 31 January 2019

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 February 2017	9.3	5.4	1.1	0.2	2.0	(5.0)	13.0
Profit for the year	—	—	—	—	—	0.1	0.1
Total comprehensive income for the year	—	—	—	—	—	0.1	0.1
At 31 January 2018	9.3	5.4	1.1	0.2	2.0	(4.9)	13.1
Profit for the year	—	—	—	—	—	(0.3)	(0.3)
Total comprehensive expense for the year	—	—	—	—	0.1	(0.3)	(0.3)
At 31 January 2019	**9.3**	**5.4**	**1.1**	**0.2**	**2.0**	**(5.2)**	**12.8**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
year ended 31 January 2019

1. Accounting policies
Basis of preparation
The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with Financial Reporting Standard 101 (FRS 101) "Reduced Disclosure Framework" as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in Note 1 to the consolidated financial statements except as noted below:

Investments
Investments in subsidiaries and associates are stated at cost less, where appropriate, provisions for impairment.

2. Loss for the financial year
As permitted by Section 408 of the Companies Act 2006 the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year amounted to £0.3m (2018: £0.1m profit).

3. Investments in subsidiary undertakings

	2019 £m	2018 £m
At 1 February	**13.8**	0.3
Capitalisation of intercompany debt	**—**	13.5
At 31 January	**13.8**	13.8

Investment in subsidiary undertakings are made up as follows:

	2019 £m	2018 £m
Elektron Technology UK Limited	**13.7**	13.7
Other	**0.1**	0.1
	13.8	13.8

Other investments comprise the Company's investments in Elektron Technology Corp, Elektron Tunisie Sarl, Elektron Technology (Shanghai) Trading Limited, Checkit Inc, Elektron Eye Technology Inc, Elektron Technology PTE Ltd, Hartest Precision Instruments India Private Ltd, and the Elektron Technology 2012 Employee Benefit Trust, all of which individually are less than £0.1m (2018: less than £0.1m).

In the previous year the year the Group undertook restructuring of its intercompany financing. This resulted in the Company capitalising loans due from Elektron Technology UK Limited (ETUK). The Company has reviewed the cash flow forecasts and business plans of ETUK and no impairment was considered necessary.

4. Debtors: amounts falling due within one year

	2019 £m	2018 £m
Amounts owed by subsidiary undertakings	**1.0**	0.5
Prepayments	**0.3**	0.1
	1.3	0.6

5. Creditors: amounts falling due within one year

	2019 £m	2018 £m
Amounts owed to subsidiary undertakings	**1.1**	1.1
Other creditors	**1.4**	0.3
	2.5	1.4

6. Share capital and reserves

Details of the share capital and reserves are given in Note 20 of the notes to the consolidated financial statements.

7. Capital expenditure commitments

Capital expenditure contracted but not provided for in the financial statements amounted to £nil (2018: £nil).

8. Operating lease commitments

As at 31 January 2019 the Parent Company had total commitments under non-cancellable operating leases. The future minimum lease payments are as follows:

	Land and buildings	
	2019 £m	2018 £m
Minimum lease payments:		
Within one year	**0.2**	0.2
Between two and five years	**0.3**	0.5
After five years	**—**	—
	0.5	0.7

9. Contingent liabilities

The Company guaranteed rental obligations of certain subsidiary companies up to £0.4m (2018: £0.4m).

10. Related party transactions

Related party transactions are the same for the Company as for the Group. Details can be found in Note 25 of the notes to the consolidated financial statements.

11. Post balance sheet events

Subsequent to the year end the Group completed the acquisition of Next Control Systems Limited on 15 May 2019 ("Next") for a consideration of £8.8m. Details can be found in Note 28 of the notes to the consolidated financial statements.

WEB PROPERTY

Elektron Technology
www.elektron-technology.com

Bulgin
www.bulgin.com

Checkit
www.checkit.net

Elektron Eye Technology
www.elektron-eye-technology.com

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