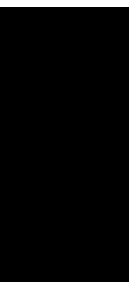
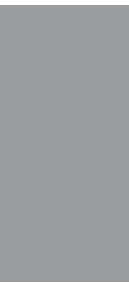
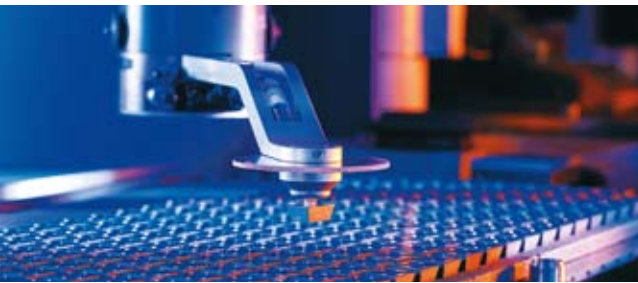


INTERIM REPORT 2009/2010



# Who we are

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

Who we are	IFC
Highlights	01
Chairman's statement	02
Group income statement	04
Group statement of recognised income and expense	04
Group balance sheet	05
Group cash flow statement	06
Group statement of changes in equity	07
Notes to the unaudited interim results	07
Operating units	08

# Highlights

- > Revenue 27% lower at £14.2 million in difficult markets
- > Gross profit margin increased to 36.4% (2008: 34.0%), driven by continued focus on costs and higher margin sales
- > Sustained profitability at the operating level
- > Loss held to £0.4 million after tax (2008: £0.2 million profit) following exceptional charges relating to cost cutting
- > Signs of improvement in all markets but confidence still fragile
- > Emphasis on building sales in growing economies of China and Brazil
- > Technical selling resource strengthened in US
- > Continuing to evaluate potential acquisition opportunities that would add scale and value

# Chairman's statement

Elektron designs and manufactures engineered products for industrial users and the distribution market. It operates worldwide and employs over 900 people in five countries.

In the first six months of the current year we have continued to see some of the most challenging conditions that the Group has faced for many years. Nevertheless, our prompt reactions in cutting costs and focussing on higher margin business have ensured that we made operating profits before exceptional charges.

The gross margin increased to 36.4% from 34.0%. At the operating level, profits were £0.2 million (2008: £0.8 million). Exceptional costs of £0.6 million related mainly to costs associated with moving manufacturing offshore (£0.4 million) and redundancy costs in the Hard Metals Division (£0.2 million). Basic and diluted loss per share on continuing businesses after exceptional costs was 0.45p (2008: 0.2p earnings per share).

We are seeing signs of improvements in our markets but we remain cautious. Nevertheless, we believe that the steps we have taken, and are continuing to take, position Elektron to obtain advantage from these improvements as they become more tangible and significant.

All Directors and staff are focussed on ensuring that Elektron is a profitable business with strong growth based on a strategy that concentrates on five key business drivers:

## Acquire

Since 2003 we have built up the Group's tangible net assets per share from 1.29p to 8.44p as a result of a careful programme of acquisitions. We intend to continue this policy and several targets are under consideration.

## Expand geographically

Elektron Components Division, our largest business unit, is a relatively international business whilst the other two divisions are currently UK-centric. It is a key requirement that divisions should seek to rapidly expand their businesses overseas to take advantage of the large available international markets for the Group's product portfolio.

## Innovate

Innovation continues to be given significant priority throughout the Group since it is through new products that the highest margins will be earned.

## Offshore

As a manufacturer, Elektron needs to ensure that manufacturing costs are kept to a minimum in order to meet international competition. An important part of our strategy is to manufacture in lower cost countries such as China and Tunisia. The Group is currently examining a third location for manufacturing.

## Unlock talent

The Board is committed to attracting and retaining talent and, as detailed in the recent annual report, has introduced a Management Development Programme. Nominees to the programme interact with main Board members and participate in Group strategy setting, encouraging a constant flow of new ideas.

## Divisional reports

**Elektron Components sales: £8.8 million; operating profit £0.9 million**

The division designs and manufactures a range of connectors and switches under the Arcoelectric and Bulgin brand names.

The current financial year commenced with a high level of uncertainty in our markets resulting in a significant fall in sales, although these were in line with our expectations based on our analysis of prospects at the end of last year. However our early actions to cut costs meant that the first half of 2009/2010 yielded higher than anticipated operating results.

Throughout this period we have continued our strategy of investment in China, where we have augmented our sales force, engineering resources and senior management team to reflect the growth opportunities and significance China now represents to our business. Order intake in China is now running 24% ahead of the same period last year as a direct result of this focus, and the team continues to work on a number of exciting prospects. We are recruiting additional sales resources elsewhere in Asia, to further increase market penetration.

We are continuing to reconfigure the global sales teams, as the economic landscape changes in our key markets. In the US we are implementing a strategy which will grow our direct selling and field applications resources. Our new distributors and representatives in Central and South America (particularly Brazil) are making good inroads into their markets with projected significant double-digit growth in sales for 2009/2010.

Our primary large end user targeting strategy is proving successful, with several tangible opportunities uncovered and initial orders already received. We anticipate that our global focus on developing partnerships with large OEMs will present us with a number of strategic high value wins in the coming months.

Our new range of ATEX approved connectors designed for the intrinsic safety marketplace, where margins are highly attractive, were launched in September 2009. This first venture into the explosive atmosphere market sector is now at the roll-out and scale-up stage.

The continuing initiative to evolve our switch portfolio from commodity products will result in the launch of several significantly higher margin products in the second half and beyond. Further products that expand our wireless portfolio are also being launched which are enabling us to target new applications previously inaccessible to us, for example in the Oil and Gas sector.

**Hard Metal sales: £2.8 million;  
operating loss £0.2 million**

The division manufactures components using Tungsten Carbide technology and router cutters under the premium Titman brand name.

Following a full review of the businesses, we have successfully re-branded Howle Carbides into a leaner, more efficient business that is now known as Total Carbide. The global downturn in Oil and Gas production has affected our business but we have been quick to assess and make appropriate savings. Titman has adapted to the circumstances in a similar manner, and is performing as expected with profits running ahead of last year.

Over the next six months we expect to see a gradual improvement in the underlying markets in which we operate. Construction, oil exploration and automotive manufacture are all showing signs of recovery. A graduate training programme has been initiated and new university collaborations will bring much needed innovation to the division. We have developed a new range of alloys for Total Carbide with better corrosion properties allowing penetration into new markets.

**Elektron Instruments sales:  
£2.6 million; operating loss  
£0.3 million**

The division designs and supplies a range of instrumentation products with a focus on temperature, pressure and nano-measurement under the Digitron, Queensgate and Sifam brand names. Sifam branded products are being transferred to the Elektron Components Division and will be reported as part of that division in the full year results.

Sifam activity to date this year has included an accelerated plan to move control knob manufacturing to our facility in China, capitalising on the established expertise. Sifam also plans to outsource meter manufacturing to India. Both projects are scheduled to complete in early 2010, although the majority of meter project costs of approximately £0.5 million will be incurred in the second half of the current financial year. We are also developing a number of new opportunities for custom mouldings within the markets we serve.

The global downturn in semiconductor usage has affected Queensgate (the nano-measurement specialist), but contracts with key accounts have bolstered sales in this period.

Digitron has undergone a full business review and a strategic plan is in place to further accelerate development of existing and new systems. The Digitron Kyros™ wireless monitoring system was delivered ahead of schedule and has secured its first sale in Dubai. There are plans to fast track this to new geographical locations including the USA, Brazil and Australasia. We have also established a base in the Middle East, and continue to develop new distributors in key geographic locations.

By the fourth quarter we expect to have launched seven new ranges of instruments for pressure and temperature measurement, replacing our current ageing range of products.

**Outlook**

There are some signs of improvement in all our markets but nevertheless we take a cautious view of the economy and remain confident of meeting market expectations for the full year.

**Keith Daley  
Chairman**

# Group income statement

unaudited interim results to 31 July 2009

	Unaudited Half year to 31 July 2009 £'000	Unaudited Half year to 31 July 2008 £'000	Audited Year to 31 January 2009 £'000
<b>Revenue from continuing operations</b>	<b>14,207</b>	19,441	35,644
Cost of sales	<b>(9,033)</b>	(12,832)	(24,306)
<b>Gross profit</b>	<b>5,174</b>	6,609	11,338
Net operating expenses (including exceptional items)	<b>(5,501)</b>	(6,396)	(13,395)
Operating profit from continuing operations	<b>231</b>	818	1,102
Exceptional items	<b>(558)</b>	(605)	(3,159)
<b>(Loss)/profit before finance costs from continuing operations</b>	<b>(327)</b>	213	(2,057)
Finance income	—	30	41
Finance costs	<b>(61)</b>	(142)	(249)
<b>(Loss)/profit before taxation from continuing operations</b>	<b>(388)</b>	101	(2,265)
Taxation on continuing operations	<b>6</b>	69	233
<b>(Loss)/profit attributable to shareholders</b>	<b>(382)</b>	170	(2,032)
<b>(Loss)/earnings per share</b> – basic	<b>(0.45)p</b>	0.20p	(2.36)p
– diluted	<b>(0.45)p</b>	0.20p	(2.36)p

# Group statement of recognised income and expense

unaudited interim results to 31 July 2009

	Unaudited Half year to 31 July 2009 £'000	Unaudited Half year to 31 July 2008 £'000	Audited Year to 31 January 2009 £'000
(Loss)/profit attributable to equity shareholders	<b>(382)</b>	170	(2,032)
Translation differences on foreign currency investments	<b>(289)</b>	27	298
Losses on revaluation of available-for-sale investments taken to equity	—	(101)	—
Total recognised (expense)/income attributable to equity shareholders	<b>(671)</b>	96	(1,734)

# Group balance sheet

unaudited interim results as at 31 July 2009

	Unaudited 31 July 2009 £'000	Unaudited 31 July 2008 £'000	Audited 31 January 2009 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4,392	3,737	3,926
Available-for-sale financial assets	478	1,250	458
Deferred tax	512	390	485
<b>Total non-current assets</b>	<b>5,382</b>	5,377	4,869
<b>Current assets</b>			
Inventories	5,022	6,363	5,654
Trade and other receivables	5,395	7,871	5,861
Cash and cash equivalents	430	1,986	834
<b>Total current assets</b>	<b>10,847</b>	16,220	12,349
<b>Total assets</b>	<b>16,229</b>	21,597	17,218
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>			
Called-up share capital	4,279	4,279	4,279
Share premium	244	244	244
Merger reserve	1,047	1,047	1,047
Capital redemption reserve	163	163	163
Other reserves	145	62	434
Retained earnings	1,341	3,920	1,723
<b>Total equity</b>	<b>7,219</b>	9,715	7,890
<b>Non-current liabilities</b>			
Long-term borrowings	1,725	1,511	1,701
Deferred tax	—	126	—
Accruals and deferred income	153	193	179
Long-term provisions	64	241	64
<b>Total non-current liabilities</b>	<b>1,942</b>	2,071	1,944
<b>Current liabilities</b>			
Trade and other payables	4,465	5,336	3,776
Short-term borrowings	1,034	2,780	1,516
Current portion of long-term borrowings	796	737	880
Current tax payable	566	481	613
Short-term provisions	207	477	599
<b>Total current liabilities</b>	<b>7,068</b>	9,811	7,384
<b>Total liabilities</b>	<b>9,010</b>	11,882	9,328
<b>Total equity and liabilities</b>	<b>16,229</b>	21,597	17,218

# Group cash flow statement

unaudited interim results to 31 July 2009

	Unaudited 31 July 2009 £'000	Unaudited 31 July 2008 £'000	Audited 31 January 2009 £'000
<b>Cash flows from operating activities</b>			
<b>(Loss)/profit before taxation (continuing activities)</b>	<b>(388)</b>	101	(2,265)
Adjustments for:			
Depreciation charge	<b>475</b>	623	1,217
Loss on disposal of fixed assets	<b>2</b>	7	17
Restructuring and other exceptional charges	<b>525</b>	605	2,140
Impairment of tangible fixed assets	<b>57</b>	—	109
Fair value changes on available-for-sale financial assets	<b>(20)</b>	—	910
Interest receivable	<b>—</b>	(33)	(41)
Interest payable	<b>61</b>	145	249
<b>Operating cash flow before working capital changes</b>	<b>712</b>	1,448	2,336
Decrease/(increase) in trade and other receivables	<b>283</b>	(200)	2,042
Decrease in inventories	<b>584</b>	255	1,082
Increase/(decrease) in trade payables	<b>768</b>	397	(1,607)
Payments for restructuring and other exceptional costs	<b>(974)</b>	(971)	(2,202)
Other non-cash movements	<b>(170)</b>	43	109
<b>Cash generated from operations</b>	<b>1,203</b>	972	1,760
Interest paid	<b>(61)</b>	(145)	(249)
Taxation (paid)/received	<b>(1)</b>	31	147
<b>Net cash generated from operating activities</b>	<b>1,141</b>	858	1,658
<b>Cash flows from investing activities</b>			
Purchase of available-for-sale financial assets	<b>—</b>	(1,351)	(1,368)
Purchase of property, plant and equipment	<b>(1,003)</b>	(495)	(1,521)
Proceeds of sale of property, plant and equipment	<b>—</b>	17	25
Interest received	<b>—</b>	33	41
<b>Net cash used in investing activities</b>	<b>(1,003)</b>	(1,796)	(2,823)
<b>Cash flows from financing activities</b>			
Movement in long-term borrowings	<b>(200)</b>	1,100	900
Movement in short-term borrowings	<b>(482)</b>	397	(867)
New capital leases	<b>492</b>	113	749
Payment of hire purchase and finance liabilities	<b>(352)</b>	(119)	(221)
Dividends paid	<b>—</b>	(390)	(385)
Purchase of own shares	<b>—</b>	(164)	(164)
<b>Net cash (used in)/generated from financing activities</b>	<b>(542)</b>	937	12
<b>Net decrease in cash and cash equivalents</b>	<b>(404)</b>	(1)	(1,153)
Cash and cash equivalents at the beginning of period	<b>834</b>	1,987	1,987
<b>Cash and cash equivalents at the end of period</b>	<b>430</b>	1,986	834

# Group statement of changes in equity

unaudited interim results to 31 July 2009

	Share capital £000	Share premium £000	Merger reserve £000	Capital redemption reserve £000	Other reserves £000	Retained earnings £000	Total £000
At 1 February 2009	4,279	244	1,047	163	434	1,723	7,890
Transfer from income and expense account	—	—	—	—	—	(382)	(382)
Exchange differences	—	—	—	—	(289)	—	(289)
<b>At 31 July 2009</b>	<b>4,279</b>	<b>244</b>	<b>1,047</b>	<b>163</b>	<b>145</b>	<b>1,341</b>	<b>7,219</b>

## Notes to the unaudited interim results

to 31 July 2009

### 1. Accounting policies

The interim financial information has been prepared on the basis of International Financial Reporting Standards (IFRS). Full details of accounting policies are included in the annual report for the year ended 31 January 2009.

Fixed annual charges are apportioned to the interim period on the basis of time elapsed. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

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

### 2. Other information

The financial information in this statement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The financial information in respect of the year ended 31 January 2009 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Copies of the interim results are available to download from the Group's website [www.elektronplc.com](http://www.elektronplc.com).

Hard copies are available free of charge from the Company's registered office at Melville Court, Spilsby Road, Romford, Essex RM3 8SB.

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