

Connect Monitor Control

Elektron Technology plc
Half-Year Report 2015–16



Checkit. Monitor everything, from anywhere, on any device. Stay on top of food safety on the move, analyse records and optimise your business.

www.checkit.net

Different and better

Elektron Technology is a global business that designs, manufactures and markets products that connect, monitor and control.

We offer a unique combination of insight and applications. It's what makes them different and better, driven by the desire to deliver innovation to a connected world.



Find out more online at

www.elektron-technology.com

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Highlights

Performance

- Revenue: £22.0m (H1 FY15: £22.1m)
- Underlying operating profit from established businesses excluding Checkit: £1.4m (H1 FY15: £0.9m), a 56% improvement
- Checkit net expensed start up costs: £0.8m (H1 FY15: £0.3m)
- Underlying operating profit*: £0.6m (H1 FY15: £0.6m), unchanged
- Operating profit: £0.4m (H1 FY15: loss £0.4m), an improvement of £0.8m
- Profit before tax: £0.3m (H1 FY15: loss £0.6m loss), an improvement of £0.9m

Financing

- Further reduction in net debt: £2.1m (31 July 2014: £4.7m; 31 January 2015: £2.7m) as a result of improved operational performance and working capital management

New products

- £1.0m (H1 FY15: £0.4m) invested in R&D in the first half primarily relating to Checkit and Bulgin
- Full launch of Checkit on track in H2 following positive market feedback from v1 prototype

* Before non-recurring and special items

Chairman's and Chief Executive's statement

“Elektron conceives, designs and markets innovative engineered products and services for businesses that connect, monitor and control.”



Keith Daley
Chairman



John Wilson
Chief Executive

Overview

The results for the first six months of the year show further progress in delivering a substantial improvement in underlying operating profit from the Group's established businesses (excluding Checkit). On similar revenues, this improvement has been achieved through further operational efficiency, cost controls and overhead improvements, principally in the Group's Connectivity business.

This improved performance has enabled the Group to continue to invest significantly in its new product offering, using operating cash flow, to establish future growth.

Underlying operating profit from the Group's established businesses (excluding Checkit) increased by 56% to £1.4m (H1 FY15: £0.9m) on similar revenues of £21.9m (H1 FY15: £22.0m). Further information on segmental performance is set out in note 2. In addition, the Group generated £0.1m of revenues (H1 FY15: £0.1m) and expensed £0.9m of pre-launch setup and marketing costs in the first half (2015: £0.4m) in respect of Checkit. Underlying Group operating profit was unchanged at £0.6m (H1 FY15: £0.6m).

With the elimination of all cash exceptional operating costs (H1 FY15: £0.8m), profit before tax increased to £0.3m (H1 FY15: £0.6m loss), an improvement of £0.9m.

Net debt fell to £2.1m (31 July 2014: £4.7m; 31 January 2015: £2.7m), with cash generated from operations of £2.1m (H1 FY15: £1.0m) amounting to 150% of the Group's investment of £1.4m (H1 FY15: £0.5m) in R&D and capital expenditure in the period.

Dividend

The Board does not propose an interim dividend (H1 FY15: £Nil) in order to conserve cash for the significant investment opportunities that we face.

Strategic progress and innovation

The Group continues to invest in New Product Development (NPD) activities in three specific primary areas, with significant launches planned for the second half of this financial year:

Checkit

Elektron's first offering in the Internet of Things (IoT) market, a digitised Hazard Analysis and Critical Control Point (HACCP) food safety monitoring system with substantial global sales potential. The full launch of Checkit is due during the second half of the financial year – a culmination of development work over the last two years following the v1 prototype, which was launched in 2013 to determine market requirements and potential demand.

Bulgin

A leader in harsh environment inter-connectivity. The 4000 series range of quick-connect Bulgin connectors is due for launch in early 2016.

Queensgate

Ranges of nano-positioning devices, incorporating Elektron's proprietary Dual Sensor Technology™. Following the re-establishment of its capabilities, a significant order has been received from a major OEM in the first half of the financial year with the majority to be delivered during the third quarter.

In addition to the above, and most importantly, the Group continues its critical project to refresh segments of its mature product ranges through value engineering, iterative product development and product factoring.

The Group's revenue classed according to growth characteristics, estimated by the Board, is as follows:

| Revenue in markets categorised as: | H1 FY16 £m | H1 FY15 £m | Change % |
|------------------------------------|---------------|---------------|--------------|
| Higher growth | 1.2 | 1.0 | +20.0% |
| Static/lower growth | 15.8 | 15.1 | +4.6% |
| Declining | 5.0 | 6.0 | -17.0% |
| Total | 22.0 | 22.1 | -0.5% |

Whilst the Group continues to experience a reduction in demand for its products sold into declining markets, the focus on development of products in higher growth and very large markets is working to increasingly offset this decline.

The forthcoming planned launches of Checkit and the Bulgin 4000 series in the second half of the financial year will provide a further platform for organic growth in the medium term. The Group continues to expect erosion of demand for some of the legacy product ranges but, as demonstrated, this is increasingly offset by growth from our new product offering.

Current trading and outlook

The underlying operating performance of the Group continues to show a marked improvement, demonstrating the successful implementation of the Group's strategy.

Despite some destocking by a number of large distributors the Group's year-to-date trading performance continues to be broadly in line with the Board's expectations.

Keith Daley
Chairman
10 September 2015

John Wilson
Chief Executive

Consolidated statement of comprehensive income

unaudited interim results to 31 July 2015

| | Unaudited Half year to 31 July 2015 £m | Unaudited Half year to 31 July 2014 £m | Audited Year to 31 January 2015 £m |
|--|--|--|--|
| Revenue (see Note 2) | 22.0 | 22.1 | 44.4 |
| Cost of sales | (13.9) | (14.6) | (28.6) |
| Gross profit | 8.1 | 7.5 | 15.8 |
| Operating expenses | | | |
| Net operating expenses (excluding non-recurring or special items) | (7.5) | (6.9) | (14.1) |
| Operating profit before non-recurring or special items | 0.6 | 0.6 | 1.7 |
| Non-recurring or special items (see Note 3) | (0.2) | (1.0) | (1.2) |
| Total operating expenses | (7.7) | (7.9) | (15.3) |
| Operating profit/(loss) | 0.4 | (0.4) | 0.5 |
| Finance costs | (0.1) | (0.2) | (0.3) |
| Profit/(loss) before taxation | 0.3 | (0.6) | 0.2 |
| Taxation see (Note 4) | — | — | — |
| Profit/(loss) for the period attributable to equity shareholders | 0.3 | (0.6) | 0.2 |
| Other comprehensive expense | | | |
| Currency translation differences on foreign currency net investments | (0.3) | (0.2) | (0.2) |
| Total other comprehensive expense | (0.3) | (0.2) | (0.2) |
| Total comprehensive income for the period attributable to equity shareholders | — | (0.8) | — |
| Earnings/(loss) per share from continuing operations (see Note 5) | | | |
| – Basic and diluted EPS | 0.2p | (0.5)p | 0.1p |
| – Adjusted and diluted adjusted EPS | 0.3p | 0.3p | 1.0p |

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

Consolidated balance sheet

unaudited at 31 July 2015

| | Unaudited 31 July 2015 £m | Unaudited 31 July 2014 £m | Audited 31 January 2015 £m |
|--|------------------------------------|------------------------------------|-------------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Capitalised R&D | 4.2 | 3.3 | 3.5 |
| Other intangible assets | 2.0 | 2.5 | 2.3 |
| Property, plant and equipment | 2.7 | 2.9 | 2.8 |
| Total non-current assets | 8.9 | 8.7 | 8.6 |
| Current assets | | | |
| Inventories | 5.1 | 5.6 | 5.4 |
| Trade and other receivables | 6.6 | 7.8 | 6.8 |
| Cash and cash equivalents | 0.5 | 0.7 | 0.6 |
| Total current assets | 12.2 | 14.1 | 12.8 |
| Total assets | 21.1 | 22.8 | 21.4 |
| Current liabilities | | | |
| Trade and other payables | 7.0 | 7.1 | 6.8 |
| Borrowings | 1.2 | 1.0 | 1.0 |
| Current portion of long-term borrowings | 1.2 | 1.5 | 1.3 |
| Provisions | 0.1 | 0.2 | 0.2 |
| Current tax payable | 0.1 | — | — |
| Total current liabilities | 9.6 | 9.8 | 9.3 |
| Non-current liabilities | | | |
| Long-term borrowings | 0.2 | 2.9 | 1.0 |
| Long-term provisions | 0.3 | 0.1 | 0.2 |
| Total non-current liabilities | 0.5 | 3.0 | 1.2 |
| Total liabilities | 10.1 | 12.8 | 10.5 |
| Net assets | 11.0 | 10.0 | 10.9 |
| Equity attributable to equity holders of the parent | | | |
| Called-up share capital | 9.3 | 9.3 | 9.3 |
| Share premium | 5.4 | 5.4 | 5.4 |
| Merger reserve | 1.1 | 1.1 | 1.1 |
| Capital redemption reserve | 0.2 | 0.2 | 0.2 |
| Own shares | (3.5) | (3.5) | (3.5) |
| Other reserves | 0.8 | 0.6 | 0.7 |
| Translation reserve | (1.1) | (0.8) | (0.8) |
| Retained earnings | (1.2) | (2.3) | (1.5) |
| Total equity | 11.0 | 10.0 | 10.9 |

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

Consolidated statement of changes in equity

unaudited interim results to 31 July 2015

| | Share capital £m | Share premium £m | Merger reserve £m | Capital redemption reserve £m | Own shares £m | Other reserves £m | Translation reserve £m | Retained earnings £m | Total £m |
|--|---------------------|---------------------|----------------------|----------------------------------|------------------|----------------------|---------------------------|-------------------------|-------------|
| At 1 February 2014 | 6.0 | 5.4 | 1.1 | 0.2 | (3.5) | 0.5 | (0.6) | (1.7) | 7.4 |
| Loss for the period | — | — | — | — | — | — | — | (0.6) | (0.6) |
| Currency translation differences on foreign currency net investments | — | — | — | — | — | — | (0.2) | — | (0.2) |
| Total comprehensive income for the period | — | — | — | — | — | — | (0.2) | (0.6) | (0.8) |
| Share issue | 3.3 | — | — | — | — | — | — | — | 3.3 |
| Credit in respect of share-based payments | — | — | — | — | — | 0.1 | — | — | 0.1 |
| At 31 July 2014 | 9.3 | 5.4 | 1.1 | 0.2 | (3.5) | 0.6 | (0.8) | (2.3) | 10.0 |
| Profit for the period | — | — | — | — | — | — | — | 0.8 | 0.8 |
| Currency translation differences on foreign currency net investments | — | — | — | — | — | — | — | — | — |
| Total comprehensive income for the period | — | — | — | — | — | — | — | 0.8 | 0.8 |
| Credit in respect of share-based payments | — | — | — | — | — | 0.1 | — | — | 0.1 |
| At 1 February 2015 | 9.3 | 5.4 | 1.1 | 0.2 | (3.5) | 0.7 | (0.8) | (1.5) | 10.9 |
| Profit for the period | — | — | — | — | — | — | — | 0.3 | 0.3 |
| Currency translation differences on foreign currency net investments | — | — | — | — | — | — | (0.3) | — | (0.3) |
| Total comprehensive income for the period | — | — | — | — | — | — | (0.3) | 0.3 | — |
| Credit in respect of share-based payments | — | — | — | — | — | 0.1 | — | — | 0.1 |
| At 31 July 2015 | 9.3 | 5.4 | 1.1 | 0.2 | (3.5) | 0.8 | (1.1) | (1.2) | 11.0 |

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

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

Consolidated statement of cash flows

unaudited interim results to 31 July 2015

| | Unaudited Half year to 31 July 2015 £m | Unaudited Half year to 31 July 2014 £m | Audited Year to 31 January 2015 £m |
|--|--|--|--|
| Net cash flows from operating activities | | | |
| Profit/(loss) before taxation | | | |
| – From continuing operations | 0.3 | (0.6) | 0.2 |
| Adjustments for: | | | |
| Depreciation charge | 0.4 | 0.4 | 0.8 |
| Non-recurring or other special items | | | |
| – Continuing (including £0.1m amortisation of intangibles (H1 FY15: £0.1m; FY15: £0.2m)) | 0.2 | 1.0 | 1.2 |
| Amortisation of capitalised R&D and other intangibles | 0.5 | 0.3 | 0.9 |
| Loss on disposal of fixed assets | 0.1 | 0.1 | 0.1 |
| Interest payable | 0.1 | 0.2 | 0.3 |
| Operating cash flow before working capital changes and non-recurring or special items | 1.6 | 1.4 | 3.5 |
| Decrease in trade and other receivables | 0.2 | 1.7 | 2.7 |
| Decrease in inventories | 0.3 | 0.6 | 0.8 |
| Increase/(decrease) in trade payables | 0.2 | (1.8) | (2.1) |
| Payments for non-recurring and other special items | (0.1) | (0.8) | (1.1) |
| Other non-cash movements | (0.1) | (0.1) | – |
| Cash generated by operations | 2.1 | 1.0 | 3.8 |
| Interest paid | (0.1) | (0.2) | (0.3) |
| Net cash inflow from operating activities | 2.0 | 0.8 | 3.5 |
| Investing activities | | | |
| Purchase of property, plant and equipment | (0.4) | (0.1) | (0.5) |
| Capitalisation of R&D costs | (1.0) | (0.4) | (1.1) |
| Disposal of business | – | – | 0.1 |
| Net cash used in investing activities | (1.4) | (0.5) | (1.5) |
| Cash flows from financing activities | | | |
| Decrease in bank loans | (0.7) | (3.3) | (5.2) |
| Payment of hire purchase and finance liabilities | – | (0.1) | (0.3) |
| Proceeds from share issue | – | 3.3 | 3.3 |
| Expenses on share issue | – | (0.3) | – |
| Net cash used in financing activities | (0.7) | (0.4) | (2.2) |
| Net decrease in cash and cash equivalents | (0.1) | (0.1) | (0.2) |
| Cash and cash equivalents at the beginning of period | 0.6 | 0.8 | 0.8 |
| Cash and cash equivalents at the end of period | 0.5 | 0.7 | 0.6 |

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

Notes to the unaudited interim results

to 31 July 2015

1. Accounting policies

The interim financial information has been prepared on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union. Full details of accounting policies are included in the Annual Report for the year ended 31 January 2015. Fixed annual charges are apportioned to the interim period on the basis of time elapsed. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

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

2. Segmental sales reporting

| Geographic | Half year to 31 July 2015 £m | Half year to 31 July 2014 £m | Year to 31 January 2015 £m |
|--|---------------------------------------|---------------------------------------|-------------------------------------|
| United Kingdom | 9.8 | 9.7 | 19.3 |
| Rest of Europe, Middle East and Africa | 6.1 | 6.2 | 12.3 |
| Asia Pacific and China | 2.2 | 2.5 | 5.1 |
| Americas | 3.9 | 3.7 | 7.7 |
| Total | 22.0 | 22.1 | 44.4 |

| Product segment | Half year to 31 July 2015 £m | Half year to 31 July 2014 £m | Year to 31 January 2015 £m |
|---|---------------------------------------|---------------------------------------|-------------------------------------|
| Connectivity | 13.3 | 13.1 | 25.8 |
| Instrumentation, Monitoring and Control | 8.6 | 8.9 | 18.4 |
| Total Connectivity and IMC | 21.9 | 22.0 | 44.2 |
| Checkit | 0.1 | 0.1 | 0.2 |
| Total | 22.0 | 22.1 | 44.4 |

Operating profit before non-recurring or special items

| Product segment | Half year to 31 July 2015 £m | Half year to 31 July 2014 £m | Year to 31 January 2015 £m |
|---|---------------------------------------|---------------------------------------|-------------------------------------|
| Connectivity | 2.2 | 1.4 | 2.9 |
| Instrumentation, Monitoring and Control | (0.8) | (0.5) | (0.5) |
| Total Connectivity and IMC | 1.4 | 0.9 | 2.4 |
| Checkit | (0.8) | (0.3) | (0.7) |
| Total | 0.6 | 0.6 | 1.7 |

2. Segmental sales reporting continued**Operating profit/(loss)**

| Product segment | Half year to 31 July 2015 £m | Half year to 31 July 2014 £m | Year to 31 January 2015 £m |
|---|---|---------------------------------------|-------------------------------------|
| Connectivity | 2.1 | 0.8 | 2.2 |
| Instrumentation, Monitoring and Control | (0.9) | (0.9) | (1.0) |
| Total Connectivity and IMC | 1.2 | (0.1) | 1.2 |
| Checkit | (0.8) | (0.3) | (0.7) |
| Total | 0.4 | (0.4) | 0.5 |

3. Non-recurring or special items

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, acquisition costs, amortisation of acquired intangible assets, share-based payments and other non-recurring items incurred outside the normal course of business.

| | Half year to 31 July 2015 £m | Half year to 31 July 2014 £m | Year to 31 January 2015 £m |
|---|---|---------------------------------------|-------------------------------------|
| Cash items | | | |
| – Strategic review and banking advisory costs | – | 0.5 | 0.8 |
| – Share issue costs | – | 0.3 | – |
| Non-cash items | | | |
| – IFRS 2 charge | 0.1 | 0.1 | 0.2 |
| – Amortisation of acquired intangible assets | 0.1 | 0.1 | 0.2 |
| Total | 0.2 | 1.0 | 1.2 |

4. Taxation

The tax credit/(charge) on profit/(loss) from continuing operations before taxation has been estimated at a rate of Nil (July 2014: Nil; January 2015: Nil).

Notes to the unaudited interim results continued

to 31 July 2015

5. Earnings/(loss) per share

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

Earnings/(loss)

| | 31 July 2015 £m | 31 July 2014 £m | 31 January 2015 £m |
|---|-----------------------|-----------------------|--------------------------|
| Earnings/(loss) from continuing operations | | | |
| Earnings/(loss) for the purposes of the basic earnings/(loss) per share being net profit/(loss) attributable to the owners of the Company | 0.3 | (0.6) | 0.2 |
| Adjustment in respect of non-recurring or special items net of taxation of £Nil (July 2014: £Nil; January 2015: £Nil) | 0.2 | 1.0 | 1.2 |
| Earnings for the purposes of adjusted earnings per share | 0.5 | 0.4 | 1.4 |

Number of shares

| | 31 July 2015 | 31 July 2014 | 31 January 2015 |
|---|--------------------|-----------------|--------------------|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 167,604,133 | 115,498,780 | 140,221,240 |
| Effect of dilutive potential ordinary shares: share options | — | — | — |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 167,604,133 | 115,498,780 | 140,221,240 |

(Loss)/earnings per share

| | 31 July 2015 | 31 July 2014 | 31 January 2015 |
|-----------------------------------|-----------------|-----------------|--------------------|
| From continuing operations | | | |
| Basic and diluted EPS | 0.2p | (0.5)p | 0.1p |
| Adjusted and diluted adjusted EPS | 0.3p | 0.3p | 1.0p |

6. Cautionary statement

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

The report contains indications of likely future developments and other forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. Key risks and their mitigation have not changed materially in the period from those disclosed on pages 11 to 14 of the annual financial statements for the year ended 31 January 2015.

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

7. 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 2015 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The Auditor's Report on those accounts was unqualified and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

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

Directors, management and advisers

Keith Daley

Chairman

John Wilson

Chief Executive Officer

Andy Weatherstone

Chief Financial Officer

Tony Harris

Independent
Non-executive Director

Ric Piper

Senior Independent
Non-executive Director

Company Secretary

Martin Reeves

BA Hons, FCIS

Registered office

Broers Building
JJ Thomson Avenue
Cambridge CB3 0FA

Registered in England

No. 448274

Registrars**Capita Registrars**

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

**Nominated adviser
and broker****finnCap**

60 New Broad Street
London EC2M 1JJ

Auditor**Deloitte LLP**

City House
126–130 Hills Road
Cambridge CB2 1RY

Bankers**HSBC Bank plc**

70 Pall Mall
London SW1Y 5EZ

Elektron Technology plc

Broers Building
JJ Thomson Avenue
Cambridge CB3 0FA

info@elektron-technology.com

www.elektron-technology.com

consultancy, design and production by

| designportfolio |

design-portfolio.co.uk @WeAre_DP

Design Portfolio is committed to planting trees for every corporate communications project, in association with Trees for Cities.



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Broers Building
JJ Thomson Avenue
Cambridge CB3 0FA

info@elektron-technology.com

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