



The Annual Report
and
Consolidated
Financial Statements
of
The Altro Group plc

for the year ended
31 December 2012

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Chairman's statement

for the year ended 31 December 2012

The results for the year ended 31 December 2012 show sales of £112.3 million [2011: £109.3 million] and a profit before tax of £10.0 million [2011: £8.8 million]. Despite the competitive trading environment, the board decided to continue to invest heavily in research and development, manufacturing and marketing to facilitate the development and launch of new products. Taking all this into account, the result is regarded as satisfactory.

The Group's cash balance remains positive, despite significant expenditure on capital projects. During the year, we completed a major redevelopment of the Letchworth Garden City site. This enabled us to make major investments in new manufacturing plant and equipment to meet the future needs of the business.

We are delighted to report that the Group has again been recognised as one of The Sunday Times '100 Best Companies to Work For' in 2012 for the seventh consecutive year. The Group is one of only two UK manufacturing companies to appear consistently in the Sunday Times listing over the past seven years and this is a major achievement. On behalf of the board and the shareholders, I thank all employees for their continuing contribution.

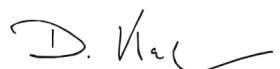
An interim dividend of 4.5p per share [2011: 4.5p] was paid to shareholders in November 2012. At the Annual General Meeting in June, the Group proposes to seek the approval of shareholders to pay a final dividend of 9.0p per share [2011: 9.0p] on Friday 19 July 2013 to those shareholders on the register at close of business on Friday 28 June 2013. The total dividend will therefore be 13.5p per share for the year to 31 December 2012 [2011: 13.5p].

A share valuation of 475p was obtained from Investec Bank plc in April 2013 [April 2012: 506p, October 2012: 521p] on behalf of the trustees of the Employee Benefit Trust (EBT) and the Share Incentive Plan (SIP).

The Group continues to support share ownership by employees and has set aside £320,000 [2011: £320,000] for the distribution of shares under the SIP in 2013.

The Company will seek the approval of shareholders at the Annual General Meeting for the purchase of up to £1 million of its own shares at 475p per share. The Share Repurchase Scheme, together with the EBT, provides a market for shareholders whilst reducing the dilution of shares in issue resulting from the allotment of shares to employees.

The uncertainties in all parts of the world continue to make forecasting difficult but, with new products being launched by both divisions, we expect sustainable growth for the future.



David J Kahn

Directors' report

for the year ended 31 December 2012

The directors present their report and the audited consolidated financial statements of The Altro Group plc ("the Company") - Company Registration Number: 01493087 - and its subsidiary undertakings (together, "the Group") for the year ended 31 December 2012. The directors of the Company, all of whom have been directors during the year and up to the date of signing the financial statements, are listed on page 9.

Principal activities and review of the business

The Altro Group plc is an unquoted public limited company and the holding company of the Altro group of companies. Its balance sheet is disclosed on page 13 and the profit attributable to its shareholders is disclosed in note 8 on page 20.

The principal activities of the business (including expected future developments which are outlined in the Chairman's statement) are the manufacture and marketing of:

- Altro safety flooring
- Altro Whiterock wall and ceiling systems
- Altro resin systems
- Autoglym vehicle care and Kanor car wash products.

Financial review

The consolidated profit and loss account for the year is set out on page 10.

The key performance indicators (KPIs) for the Group are:

- Turnover – increase of 2.7% [2011: down 0.4%]
- Operating profit – increase of 15.9% [2011: down 30.0%]
- Net funds – decrease of 39.2% [2011: down 40.4%]
- Shareholders' funds – increase of 5.1% [2011: down 3.4%]

The Group's net funds as at 31 December 2012 were £6.9 million [2011: £11.3 million].

The performance against KPIs is considered satisfactory given the overall economic environment.

Expenditure during the year has included investment in buildings, plant and machinery throughout the Group as well as additional contributions of £1.75 million to the Defined Benefit Pension Scheme. Such expenditure is a clear example of our policy of investing for the future.

Principal risks and uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks and the Group has procedures and systems to manage these.

The key business risks affecting the Group are considered to relate to competition from other manufacturers, increased raw material and energy costs, fluctuations in the UK and global economy and any action which may be taken by governments in our major markets to address their budget deficits.

The board takes action where possible to eliminate, reduce or mitigate specific risks through the adoption of appropriate strategies.

Financial risk management

The Group's operations expose it to a variety of financial risks, including the effects of changes in currency exchange rates, credit exposure, liquidity and interest rates.

Given the size of the Group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the Group's finance department.

The main risks arising from the Group's financial management can be analysed as follows:

Currency risk

The Group is exposed in its trading operations to the risk of fluctuations in currency exchange rates. Where appropriate, forward contracts and swaps are used to hedge this exposure.

Credit risk

The Group's principal financial assets are bank balances, stock and trade debtors which represent the Group's maximum exposure to credit risk in relation to financial assets. Risk is managed through internal monitoring processes and credit insurance, both of which have been given greater focus because of difficult trading conditions.

Price risk

The Group is exposed to price risk on raw materials as a result of its operations and such exposure is monitored closely and reported on regularly. In the majority of cases, dual supply arrangements are in place.

Liquidity risk

The Group has positive cash balances with various banks and appropriate overdraft facilities in place where considered necessary.

Interest rate risk

The Group has very limited exposure to interest rate risk as borrowings are not significant. However, there is an exposure to the impact of longer term rate movements in the Defined Benefit Pension Scheme, which is managed by the trustees of the Scheme and their advisers.

Directors' liability insurance

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the financial year and is currently in force. The Company also purchased and maintained throughout the financial year, Directors' and Officers' liability insurance in respect of itself and its directors.

Share capital

During 2012, the Group bought back and cancelled 131,983 [2011: 293,685] ordinary shares of 10p each (representing 0.8% [2011: 1.7%] of the called up share capital) at a price of 506p per share [2011: 681p per share] for a total of £667,833 [2011: £1,999,994] with a nominal value of £13,198 [2011: £29,368].

The Group will seek approval at the Annual General Meeting to commit up to £1 million to buying back Group shares [2011: £2 million]. This is the nineteenth year in which the Group has run the Share Repurchase Scheme for the benefit of all shareholders.

Dividends

The directors recommend a final dividend of 9.0p per share, resulting in a total dividend of 13.5p per share for the year. Based on the number of shares in issue at the date of this report, this would equate to a final dividend of £1,574,492. The total dividend paid in the year was 13.5p per share. Diluted earnings per share were 42.1p [2011: 35.6p]. Assuming approval by shareholders at the Annual General Meeting, the final dividend will be paid on Friday 19 July 2013 to all those on the share register at close of business on Friday 28 June 2013.

Share Incentive Plan (SIP)

£320,000 has been allocated to the SIP [2011: £320,000 for shares awarded to 464 employees]. This allocation will be the eleventh under the SIP.

Employee Benefit Trust (EBT)

Shares continue to be purchased by the EBT for use in the Group share schemes. The financial results of the EBT are incorporated into the consolidated financial statements of the Group.

Employees

The Group operates non-discriminatory employment policies which are designed to attract, retain and motivate the very best people, recognising that this can only be achieved through offering equal opportunities regardless of age, disability, gender, race, religion, colour, nationality, marital status and sexual orientation.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned.

In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate facilities are available and training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Staff are encouraged to plan their careers within the Group and to participate in appropriate ongoing training, consistent with the needs of the business.

All divisions develop their own internal communications and employees receive regular updates on the Group's strategies, policies and results.

The Group has taken appropriate steps during the financial year to introduce, maintain, or develop arrangements aimed at consulting employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions that are likely to affect their interests.

Our success is due to the teamwork and co-operation of the people within the Group. The directors thank all those who have worked so hard and contributed so much to achieve these results during a demanding time. The Group continues to develop and maintain a culture which encourages long service and we are proud that so many employees choose to remain with us over many years.

Health & Safety and the environment

Health & Safety and environmental performance remain key business objectives.

Our World Class Manufacturing and Sustainability programmes are of prime importance and we continue to invest for the future.

Research and development

Research and development remains at the forefront of our vision for the future and our strength and depth in this area are essential parts of our business. All research and development expenditure is charged to the profit and loss account as incurred.

Group pension schemes

The future of our pension schemes is underpinned by the knowledge that a strong and successful Group should ensure that pension obligations can be met today and in the future.

The Group continues to support the Defined Benefit Pension Scheme which was closed to new members in September 2005. The Scheme was in deficit as at 31 December 2012 and the Group made a contribution of £1.75 million in the year to the Scheme in addition to the expected future funding contribution, in line with the triennial funding plan agreed with the pension trustees in 2011.

The Group also operates Defined Contribution Pension Schemes for employees who do not participate in the Defined Benefit Pension Scheme.

Directors' report continued

for the year ended 31 December 2012

Payments to suppliers

Group companies do not follow any published code or standard on payment practice for suppliers of goods and services. However, in respect of regular suppliers, our policy is generally to establish agreed payment terms which apply to recurring transactions, subject to review as appropriate. For occasional suppliers, the policy is to pay in accordance with prevailing practice for that particular country and industry or market, subject to any specific agreement. The Company acts as a holding company for the Group. Creditor days for the Company were nil [2011: nil] as it does not undertake any transactions with suppliers. The Group's creditor days were 37 at 31 December 2012 [2011: 45 days].

Charitable and political donations

The group contributed £26,245 [2011: £24,695] for charitable purposes. There were no political contributions.

Going concern

In arriving at their decision to prepare these financial statements on the going concern basis, the directors have reviewed the Group's budget, forecasts and cash flow projections for 2013 and 2014 (including proposed capital expenditure) and compared these with the Group's cash holdings, its committed borrowing facilities and projected gearing ratios.

The directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future and so continue to adopt the going concern basis.

Purchase and disposal of shares

Any shareholder wishing to purchase or sell shares in the Company should contact our registrars, Capita Registrars Limited, or the Company Secretary.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's websites. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

Each director in office at the date of the Directors' report confirms the following:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.



E P Boyle
Secretary

8 May 2013

Independent auditors' report to the members of The Altro Group plc for the year ended 31 December 2012

We have audited the Group and parent Company financial statements (the "financial statements") of The Altro Group plc for the year ended 31 December 2012 which comprise the Consolidated profit and loss account, the Consolidated and Company balance sheets, the Consolidated cash flow statement, the Consolidated statement of total recognised gains and losses, the reconciliation of movements in Group shareholders' funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2012 and of the Group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

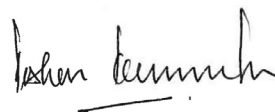
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.



Deshan Karunaratne (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans

8 May 2013

Directors and advisers

Directors

D J Kahn *Chairman*
E P Boyle
P L Caller
G Cleverdon
M P Fincham*
R J Kahn *Managing Director*
J F H Park*
**Non-executive*

Secretary

E P Boyle FCCA

Registered office

Works Road
Letchworth Garden City
Hertfordshire
SG6 1NW

Company registration number

01493087

Independent auditors

PricewaterhouseCoopers LLP

Bankers

Barclays Bank PLC

Solicitors

DLA Piper UK LLP

Stockbrokers

Investec Bank plc

Registrars

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Consolidated profit and loss account for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Turnover	2	112,297	109,338
Cost of sales		(52,862)	(51,988)
Gross profit		59,435	57,350
Net operating expenses	5	(49,291)	(48,598)
Operating profit		10,144	8,752
Interest receivable and similar income	6	101	145
Interest payable and similar charges	6	(204)	(134)
Profit on ordinary activities before taxation	7	10,041	8,763
Tax on profit on ordinary activities	10	(2,813)	(2,541)
Profit for the financial year		7,228	6,222
Earnings per share	12		
Basic		42.1p	35.7p
Diluted		42.1p	35.6p

All the above results derive from continuing operations.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

Consolidated statement of total recognised gains and losses for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Profit for the financial year		7,228	6,222
Currency translation differences		(370)	(26)
Actuarial loss on net Defined Benefit Pension Scheme assets	21	(462)	(4,675)
Deferred tax on actuarial loss		106	1,169
Total recognised gains and losses relating to the year		6,502	2,690

Reconciliation of movements in Group shareholders' funds for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Total recognised gains and losses relating to the year		6,502	2,690
Dividends paid	11	(2,306)	(2,332)
		4,196	358
Issue of new shares	23	-	371
Purchase of own shares	24	(668)	(2,000)
Purchase of own shares for the Share Incentive Plan	24	(320)	(319)
Purchase of own shares by the Employee Benefit Trust	24	(1,244)	(2,133)
Disposal of own shares by the Employee Benefit Trust	24	625	1,313
Credit in respect of equity-settled share-based payments	24	320	368
Total movement in the year		2,909	(2,042)
Opening Group shareholders' funds		57,400	59,442
Closing Group shareholders' funds		60,309	57,400

Consolidated balance sheet

at 31 December 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Intangible assets	14	1,457	1,619
Tangible assets	15	41,472	35,790
		42,929	37,409
Current assets			
Stocks	17	13,808	14,486
Debtors	18	17,842	17,208
Cash at bank and in hand		9,728	13,813
		41,378	45,507
Creditors: amounts falling due within one year	19	(15,886)	(16,418)
		25,492	29,089
Total assets less current liabilities			
		68,421	66,498
Provisions for liabilities	20	(582)	(1,231)
		67,839	65,267
Net assets excluding Defined Benefit Pension Scheme liability			
Defined Benefit Pension Scheme liability	21	(7,530)	(7,867)
		60,309	57,400
Capital and reserves			
Called up share capital	23	1,749	1,763
Share premium account	24	6,991	6,991
Other reserves	24	(1,429)	(834)
Profit and loss account	24	52,998	49,480
		60,309	57,400

The financial statements on pages 10 to 39 were approved by the Board on 8 May 2013 and signed on its behalf by



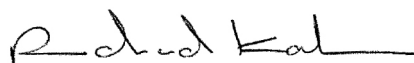
R J Kahn
Managing Director

Company balance sheet

at 31 December 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	15	28,179	23,165
Investments	16	9,776	9,153
		37,955	32,318
Current assets			
Debtors	18	839	89
Cash at bank and in hand		2,842	2,054
		3,681	2,143
Creditors: amounts falling due within one year	19	(3,469)	(4,140)
Net current assets / (liabilities)		212	(1,997)
Total assets less current liabilities		38,167	30,321
Provisions for liabilities	20	(72)	(104)
Net assets		38,095	30,217
Capital and reserves			
Called up share capital	23	1,749	1,763
Share premium account	24	6,991	6,991
Other reserves	24	(1,429)	(834)
Profit and loss account	24	30,784	22,297
Total shareholders' funds		38,095	30,217

The financial statements on pages 10 to 39 were approved by the Board on 8 May 2013 and signed on its behalf by



R J Kahn
Managing Director

Consolidated cash flow statement for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Net cash inflow from operating activities	25(a)	10,471	6,301
Returns on investments and servicing of finance	25(b)	88	141
Tax paid		(2,008)	(2,590)
Capital expenditure and financial investment	25(b)	(9,909)	(7,543)
Equity dividends paid to shareholders	11	(2,306)	(2,332)
Net cash outflow before use of liquid resources and financing		(3,664)	(6,023)
Financing			
Purchase of own shares	24	(668)	(2,000)
Issue of ordinary share capital	24	-	371
Decrease in cash		(4,332)	(7,652)

Reconciliation of cash to movement in net funds for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Decrease in cash		(4,332)	(7,652)
Effect of exchange differences		(102)	(6)
Movement in net funds for the year		(4,434)	(7,658)
Opening net funds		11,315	18,973
Closing net funds	25(c)	6,881	11,315

Notes to the consolidated financial statements

for the year ended 31 December 2012

1 Accounting policies

(a) Basis of accounting

The Group financial statements have been prepared under the provisions of the Large- and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) and applicable accounting standards in the United Kingdom. The financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of land and buildings and in accordance with the Companies Act 2006. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

(b) Basis of consolidation

The Group financial statements consolidate the results of The Altro Group plc and all its subsidiary undertakings at 31 December 2012 using acquisition accounting. The Group's accounting policies are adopted by all subsidiaries.

(c) Capital contributions

In accordance with the Amendments to FRS 20: Share-based Payment, as the Company has granted rights over its equity instruments to the employees of Altro Limited, there is a corresponding increase recognised in the investment in the subsidiary.

(d) Goodwill and intangible fixed assets

Goodwill, being the difference between the cost of the businesses acquired and the fair value of their separable net assets, is included in the balance sheet in accordance with FRS 10: Goodwill and Intangible Assets. Purchases of intangible fixed assets are included in the balance sheet at cost less accumulated amortisation. Goodwill and intangible fixed assets are amortised in equal instalments over their estimated useful economic lives, up to a maximum of twenty years.

The useful economic lives are reviewed annually and revised if necessary. Provision is made for any impairment.

(e) Tangible fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any related incidental costs of acquisition. Depreciation is provided evenly on the cost (or valuation where appropriate) of tangible fixed assets to write them down to their estimated residual values over their expected useful economic lives. No depreciation is provided on freehold and long leasehold land and assets under construction.

The annual rates used for other assets are:

- Freehold and long leasehold buildings - 2.5%;
- Short leasehold buildings - 5% or term if under twenty years; and
- Plant, equipment and vehicles - 10% to 50% according to type of asset.

Where there is evidence of impairment, fixed assets are written down to the recoverable amount.

(f) Deferred tax

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and tax purposes.

In accordance with FRS 19: Deferred Tax, deferred tax is not provided on timing differences arising from:

- revaluation gains on land and buildings, unless there is a binding agreement to sell them at a balance sheet date;
- gains on the sale of non-monetary assets where, on the basis of all available evidence, it is more likely than not that the taxable gain will be rolled over into replacement assets;
- extra tax payable on the unremitted earnings of overseas subsidiaries where there is no commitment to remit these earnings;
- fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the years when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related deferred tax is also taken directly to the statement of total recognised gains and losses.

Notes to the consolidated financial statements

for the year ended 31 December 2012

1 Accounting policies (continued)

(g) Foreign currencies

Transactions of UK companies denominated in foreign currencies are translated into sterling at either:

- the rate ruling at the date of the transactions; or
- the contracted rate if the transactions are covered by a forward exchange contract.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date, or, if appropriate, at the forward contract or option rate. These translation differences are dealt with in the profit and loss account. The fair value of forward exchange contracts as at 31 December 2012 was a gain of £18,331 (2011: loss of £203,266). The Group also uses currency swaps to hedge against foreign exchange risk. The market value of these instruments as at 31 December 2012 was a gain of £26,111 (2011: gain of £129,052).

The financial statements of foreign subsidiaries are translated into sterling at the closing rate of exchange. The differences, which are taken direct to reserves, arise from the translation of:

- the opening net asset investment in subsidiaries at the closing rates; and
- matched long-term foreign currency borrowings.

(h) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents all direct costs incurred in bringing stocks to their present state and location, including an appropriate proportion of manufacturing overheads. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

(i) Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

(j) Pension costs

The Group operates a Defined Benefit Pension Scheme (DB Scheme), closed to new members, the costs of which are assessed in accordance with the advice of an independent qualified actuary.

Pension costs for the DB Scheme have been accounted for in accordance with FRS 17: Retirement Benefits. The assets of the DB Scheme are measured at current bid price, and the liabilities using a projected unit method and discounted at a high quality corporate bond rate.

The DB Scheme asset or liability is recognised in full on the balance sheet, net of the effects of deferred tax. The cost charged to operating profit is the current and past service cost of the DB Scheme. The interest costs and expected return on DB Scheme assets are included in the net finance charge or income on the profit and loss account. Actuarial gains or losses as a result of the actual return on assets differing from the expected return are recognised in the statement of total recognised gains and losses.

The Group also operates a number of Defined Contribution Pension Schemes (DC Schemes). The pension costs for the DC Schemes represent contributions payable by the Group in the year.

(k) Investment in own shares

Investments in the Company's own shares held within the Employee Benefit Trust are included in the balance sheet at cost less provision for impairment in value (if relevant).

(l) Operating leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

(m) Employee Benefit Trust (EBT)

The Group's EBT is separately administered. The liabilities of the EBT are guaranteed by the Company and the assets of the EBT comprise shares in the Company. The income, costs, assets and liabilities of the EBT have been included in the consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2012

1 Accounting policies (continued)

(n) Dividends

In accordance with FRS 21: Events after the Balance Sheet Date, dividends proposed after the balance sheet date are not charged to the profit and loss account in the year. A final dividend for the year ended 31 December 2012 will be proposed at the Annual General Meeting on 20 June 2013.

(o) Share-based payment

The Group issues share options to certain employees. The fair value of equity-settled share-based payments is measured at the date of the grant. The fair value of cash-settled share-based payments is remeasured at the end of each year. The charge, based on fair value and the Group's estimation of shares that will eventually vest, is expensed on a straight line basis over the vesting period.

The calculation of the fair value of the share options issued by the Group has been based on the Black-Scholes valuation model, using a number of subjective assumptions, the most significant of which is that the expected volatility of the Group's share valuation will be 50%.

The Group operates a Share Incentive Plan on which it is also required to recognise a compensation charge under FRS 20: Share-based Payment, calculated as detailed above.

Employer's National Insurance contributions arise on the exercise of certain share options. In accordance with UITF 25: National Insurance Contributions on Share Option Gains, provision is made, based on the difference between the market price of the Company's shares at the balance sheet date and the option exercise price, spread pro-rata over the vesting period of the options.

(p) Turnover

The Group follows the principles of Application Note G: Revenue Recognition of FRS 5: Reporting the Substance of Transactions, in determining appropriate revenue recognition policies.

In principle therefore, revenue is recognised to the extent that the Group has obtained the right to consideration through its performance.

Turnover (excluding relevant sales tax) comprises the value of sales of goods after deducting certain sales incentives.

(q) Provisions

Provisions principally comprise management's best estimate of costs required to make good for repair works on floors laid, and anticipated costs to make good on modifications at leased premises.

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated, and are undiscounted.

Notes to the consolidated financial statements

for the year ended 31 December 2012

2 Turnover

Group turnover represents the invoiced value of goods sold to external customers and completed contracts excluding relevant sales tax.

Turnover by geographical area was:

	2012		2011	
	£'000	%	£'000	%
Territory				
United Kingdom	59,919	54	57,445	53
Continental Europe	18,093	16	19,060	17
The Americas	25,043	22	22,900	21
Australia and Asia Pacific	7,824	7	8,329	8
Rest of world	1,418	1	1,604	1
	112,297	100	109,338	100

The directors have elected not to show an analysis of turnover, profit before tax or net assets by activity as, in their opinion, it would be prejudicial to the interests of the Group. An analysis of profit and net assets by geographical area has been omitted for the same reason.

3 Group employees

The average monthly number of Group employees, including directors, during the year was:

	2012 Number	2011 Number
Manufacturing	158	149
Sales and marketing	236	237
Warehouse and distribution	79	73
Administration and management	163	162
	636	621

Employee costs, including directors, during the year were:

	2012 £'000	2011 £'000
Wages and salaries	23,604	23,230
Social security costs	2,592	2,446
Pension costs	2,098	1,827
Employee share schemes (note 22)	623	726
Other staff benefits	1,163	1,115
	30,080	29,344

All staff are employed by subsidiaries within the Group. The Company has no employees.

Notes to the consolidated financial statements

for the year ended 31 December 2012

4 Directors' remuneration

	2012 £	2011 £
Emoluments	1,424,659	1,230,097
Defined Benefit Pension Scheme contributions	71,807	105,795
Defined Contribution Pension Scheme contributions	186,013	139,510
	1,682,479	1,475,402

Retirement benefits are accruing to two directors (31 December 2011: three) under the DB Scheme at 31 December 2012. Contributions were made to a Defined Contribution Pension Scheme on behalf of one director (31 December 2011: one) in the year ended 31 December 2012.

	2012 £	2011 £
Highest paid director:		
Emoluments	460,953	463,017
Defined Benefit Pension Scheme contributions	-	14,281
Defined Contribution Pension Scheme contributions	186,013	139,510
	646,966	616,808

The amount of the accrued pension in the DB Scheme of the highest paid director at 31 December 2012 is £132,043 (31 December 2011: £132,043). No share options (2011: 53,127) and no Phantom share options (2011: 78,896) were exercised by the highest paid director in the year.

5 Net operating expenses

	2012 £'000	2011 £'000
Distribution costs	33,609	30,879
Administrative expenses	15,682	17,719
	49,291	48,598

Notes to the consolidated financial statements

for the year ended 31 December 2012

6 Interest receivable and payable

	2012 £'000	2011 £'000
Interest receivable and similar income:		
short term deposits	51	143
other	50	2
Interest receivable and similar income	101	145
Interest payable and similar charges		
bank overdraft	(13)	(4)
finance charge on DB Scheme (note 21)	(191)	(130)
Interest payable and similar charges	(204)	(134)

7 Profit on ordinary activities before taxation

The profit for the year before taxation is arrived at after charging / (crediting):

	2012 £'000	2011 £'000
Depreciation	3,255	3,031
Amortisation of intangible fixed assets	162	182
Fees payable to the Company's auditor for:		
the audit of the Company and consolidated financial statements	66	65
other services:		
the audit of the Company's subsidiaries pursuant to legislation	16	16
taxation services	31	38
other services	6	92
Research and development	1,595	1,672
Foreign exchange (gains) / losses	(113)	9
Rentals under operating leases:		
hire of plant and machinery	3	3
other operating leases	1,602	1,706
Loss on disposal of tangible fixed assets	25	288

8 Profit attributable to the shareholders of the Company

The profit attributable to the shareholders of The Altro Group plc is £11,471,136 (2011: £6,433,661). The directors have taken advantage of the exemption under Section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company.

Notes to the consolidated financial statements

for the year ended 31 December 2012

9 Operating lease commitments

The commitments at 31 December under non-cancellable operating leases are:

	2012		2011	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases expiring:				
within one year	100	93	144	122
between one and five years	548	602	307	455
after five years	81	-	118	-
	729	695	569	577

10 Tax on profit on ordinary activities

The tax charge based on the profit for the year is made up as follows:

	2012 £'000	2011 £'000
Current tax:		
UK corporation and income tax:		
current tax on income for the year	1,872	1,511
income tax on Employee Benefit Trust	-	234
adjustments in respect of prior years	(47)	(254)
	1,825	1,491
Foreign tax:		
current tax on income for the year	740	302
adjustments in respect of prior years	(133)	55
	607	357
Current tax charge	2,432	1,848
Deferred tax:		
timing differences - origination and reversal	381	693
Deferred tax charge	381	693
Tax on profit on ordinary activities	2,813	2,541

Notes to the consolidated financial statements

for the year ended 31 December 2012

10 Tax on profit on ordinary activities (continued)

The current tax charge for the year is lower (2011: lower) than the applicable hybrid rate of corporation tax in the UK of 24.5% (2011: 26.5%). The hybrid rate is a result of a tax rate of 26% for FY2011 and 24% for FY2012.

A reconciliation of the current tax charge for the year is presented below:

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	10,041	8,763
Tax charge on profit at a hybrid rate of 24.5% (2011: 26.5%)	2,460	2,322
Expenses not deductible for tax purposes	146	109
Depreciation in excess of capital allowances	153	167
Movement in short-term timing differences	(215)	(653)
Differences in UK income tax and overseas tax rates	134	155
Overseas losses utilised	-	(92)
Adjustments in respect of prior years	(180)	(199)
Other	(66)	39
Current tax charge	2,432	1,848

Factors that may affect the future current tax charge

Deferred tax has not been provided on revaluations of fixed assets. This tax will only become payable if the assets are sold and roll-over relief is not obtained. The estimated amount of tax that would become payable in these circumstances is £343,773 (2011: £373,667).

Deferred tax has not been provided in respect of gains realised that have been rolled over into the acquisition cost of replacement assets. This tax will become payable if the replacement assets are sold and further roll-over relief is not obtained. The estimated amount of tax that would become payable in these circumstances is £150,100 (2011: £163,153).

As a result of the change in the UK main corporation tax rate to 23% that will be effective from 1 April 2013, the relevant deferred tax balances have been re-measured.

Further changes to the UK corporation tax system were announced in the Chancellor of the Exchequer's Autumn Statement 2012 and Budget Statement 2013. These include a reduction to the main rate of UK corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes had not been substantively enacted at the balance sheet date and are therefore not included in these financial statements.

The proposed reduction of the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015 will be enacted separately. The overall effect of these further changes, if they applied to the deferred tax balance at the balance sheet date, would be immaterial.

Notes to the consolidated financial statements

for the year ended 31 December 2012

11 Dividends

	2012 £'000	2011 £'000
Final dividend for prior year of 9.0p per share (2011: 9.0p)	1,538	1,554
Interim dividend for current year of 4.5p per share (2011: 4.5p)	768	778
	2,306	2,332

A final dividend of 9.0p per share for the year ended 31 December 2012 will be proposed at the Annual General Meeting on 20 June 2013. Based on the number of shares in issue at the date of this report, this would equate to a dividend of £1,574,492. In accordance with FRS 21: Events after the Balance Sheet Date, this dividend is not included above.

Dividends payable on shares held by the Employee Benefit Trust have been waived.

12 Earnings per share

	2012 £'000	2011 £'000
Profit for the financial year	7,228	6,222

	2012 Number of shares	2011 Number of shares
Weighted average number of shares in issue	17,561,069	17,696,245
Weighted average number of shares held by the Employee Benefit Trust	(388,741)	(263,693)
Basic weighted average number of shares in issue	17,172,328	17,432,552
Dilutive effect of share option schemes	2,859	42,734
Diluted weighted average number of shares	17,175,187	17,475,286

Earnings per share		
Basic	42.1p	35.7p
Diluted	42.1p	35.6p

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the weighted average number of shares held by the Employee Benefit Trust.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one class of dilutive potential ordinary shares, namely share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Notes to the consolidated financial statements

for the year ended 31 December 2012

13 Investment in own shares

The Group accounts for its own shares held by the trustees of the Employee Benefit Trust (EBT) as a deduction from shareholders' funds as required by UITF 38: Accounting for ESOP Trusts. The costs of running the EBT are charged to the Company's profit and loss account as they occur and are financed by advances from the Company.

	At 31 December	
	2012	2011
Number of shares in the Company owned by the EBT	425,098	299,375
Nominal value of shares held	£42,510	£29,938
Cost price of shares held	£2,401,703	£1,792,776
Prevailing valuation of the shares (pence)	521	475
Total market value of shares	£2,214,761	£1,422,031
Maximum number of shares in the Company owned by the EBT during the year	475,428	405,093
Minimum number of shares in the Company owned by the EBT during the year	330,697	168,199

The EBT does not award shares to employees but sells shares it holds both to employees and to The Altro Group plc. The shares held by the EBT are therefore not under option to employees.

Dividends payable on these shares are waived.

14 Intangible fixed assets

The Group

	Distribution rights £'000	Franchise £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2012	100	141	3,216	3,457
At 31 December 2012	100	141	3,216	3,457
Accumulated amortisation				
At 1 January 2012	100	66	1,672	1,838
Charge for the year	-	7	155	162
At 31 December 2012	100	73	1,827	2,000
Net book value				
At 31 December 2012	-	68	1,389	1,457
At 31 December 2011	-	75	1,544	1,619

The Company does not hold any intangible fixed assets.

Notes to the consolidated financial statements

for the year ended 31 December 2012

15 Tangible fixed assets

The Group	Land and buildings			Plant equipment and vehicles	Assets under construction	Total
	Freehold £'000	Long leasehold £'000	Short leasehold £'000			
Cost or valuation						
At 1 January 2012	2,296	25,613	476	37,240	3,170	68,795
Currency translation differences	9	-	(10)	14	-	13
Additions	1	5,568	104	3,326	-	8,999
Disposals	-	-	-	(3,056)	-	(3,056)
Transfers	(15)	3,048	125	12	(3,170)	-
At 31 December 2012	2,291	34,229	695	37,536	-	74,751
At valuation	256	4,394	-	-	-	4,650
At cost	2,035	29,835	695	37,536	-	70,101
At 31 December 2012	2,291	34,229	695	37,536	-	74,751
Accumulated depreciation						
At 1 January 2012	586	6,452	455	25,512	-	33,005
Currency translation differences	2	-	(7)	25	-	20
Transfers	2	(65)	69	(6)	-	-
Charge for the year	49	538	35	2,633	-	3,255
Disposals	-	-	-	(3,001)	-	(3,001)
At 31 December 2012	639	6,925	552	25,163	-	33,279
Net book value						
At 31 December 2012	1,652	27,304	143	12,373	-	41,472
At 31 December 2011	1,710	19,161	21	11,728	3,170	35,790
Comparable amounts determined according to the historical cost convention:						
cost	2,163	32,878	695	37,536	-	73,272
accumulated depreciation	(627)	(6,680)	(552)	(25,163)	-	(33,022)
Net book value						
At 31 December 2012	1,536	26,198	143	12,373	-	40,250
At 31 December 2011	1,594	18,055	21	11,728	3,170	34,568

Notes to the consolidated financial statements

for the year ended 31 December 2012

15 Tangible fixed assets (continued)

The Company	Land and buildings		Assets under construction	Total
	Freehold	Long leasehold		
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 January 2012	1,087	25,499	3,170	29,756
Additions	-	5,568	-	5,568
Transfers	8	3,162	(3,170)	-
At 31 December 2012	1,095	34,229	-	35,324
At valuation	256	4,394	-	4,650
At cost	839	29,835	-	30,674
At 31 December 2012	1,095	34,229	-	35,324
Accumulated depreciation				
At 1 January 2012	213	6,378	-	6,591
Charge for the year	16	538	-	554
Transfers	(8)	8	-	-
At 31 December 2012	221	6,924	-	7,145
Net book value				
At 31 December 2012	874	27,305	-	28,179
At 31 December 2011	874	19,121	3,170	23,165
Comparable amounts determined according to the historical cost convention:				
cost	969	32,877	-	33,846
accumulated depreciation	(211)	(6,678)	-	(6,889)
Net book value				
At 31 December 2012	758	26,199	-	26,957
At 31 December 2011	758	18,015	3,170	21,943

Notes to the consolidated financial statements

for the year ended 31 December 2012

16 Fixed asset investments

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
At 1 January	-	-	9,153	8,427
Capital contribution arising from share-based payment charge	-	-	623	726
At 31 December	-	-	9,776	9,153

The directors believe that the carrying value of the investments is supported by their underlying net assets.

The capital contributions arising from the FRS 20: Share-based Payment charge are due to the Company granting share options to employees of Altro Limited. The application of the Amendments to FRS 20: Share-based Payment results in a corresponding increase in investment in Altro Limited.

Principal trading subsidiaries

The principal trading subsidiaries at 31 December 2012 were:

Company	Country of incorporation	Class of shares	% of shares held	Activity
Altro Limited	England & Wales	Ordinary	100	Manufacturing and marketing
Altro APAC Pty Limited	Australia	Ordinary	100	Distribution
Altro GmbH	Germany	-	100	Distribution
Altro Nordic AB	Sweden	Ordinary	100	Distribution
Altro Scandess SA	Spain	Ordinary	100	Distribution
Altro Canada Inc	Canada	Common	100	Distribution
Altro USA Inc	USA	-	100	Distribution

17 Stocks

	2012 £'000	2011 £'000
Raw materials and consumables	4,413	4,177
Finished goods and goods held for resale	9,395	10,309
	13,808	14,486

Notes to the consolidated financial statements

for the year ended 31 December 2012

18 Debtors

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Trade debtors	13,037	12,779	-	-
Amounts owed by group undertakings	-	-	839	-
Other debtors	993	867	-	89
Prepayments and accrued income	3,812	3,562	-	-
	17,842	17,208	839	89

Amounts owed by group undertakings are unsecured, repayable on demand and accrue interest at relevant agreed rates to the extent that such balances are overdue.

19 Creditors: amounts falling due within one year

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Bank overdrafts	2,847	2,498	2,847	2,498
Trade creditors	5,560	7,490	-	-
Amounts owed to group undertakings	-	-	-	921
Corporate tax	879	455	-	228
Other taxation	543	277	-	-
Social security costs	683	589	-	-
Other creditors	167	258	-	-
Accruals	5,207	4,851	622	493
	15,886	16,418	3,469	4,140

Amounts owed to group undertakings are unsecured, interest-free and repayable on demand.

20 Provisions for liabilities and charges

The Group

	Deferred tax £'000	Other £'000	Total £'000
At 1 January 2012	443	788	1,231
(Credited) / charged to profit and loss account	(99)	349	250
Utilised in the year	-	(377)	(377)
Released in the year	(280)	(243)	(523)
Other movement	9	(8)	1
At 31 December 2012	73	509	582

Other provisions represent estimated amounts in respect of worldwide dilapidations and reparations. This provision is expected to be used over the next five years.

Notes to the consolidated financial statements

for the year ended 31 December 2012

20 Provisions for liabilities and charges (continued)

The Company

	Deferred tax £'000	Other £'000	Total £'000
At 1 January 2012	104	-	104
Charged to profit and loss account	(32)	-	(32)
At 31 December 2012	72	-	72

Deferred tax

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Accelerated capital allowances	568	641	72	104
Other short-term timing differences	(495)	(198)	-	-
Deferred tax liability	73	443	72	104

Deferred tax asset relating to Defined Benefit Pension Scheme deficit

	Group 2012 £'000	Group 2011 £'000
At 1 January	2,623	2,045
Deferred tax charge to profit and loss account	(480)	(591)
Deferred tax credit to statement of total recognised gains and losses	106	1,169
At 31 December	2,249	2,623

Unprovided deferred tax

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Roll-over relief	150	163	150	163
Surplus on revaluation of land and buildings	344	374	344	374
Unprovided deferred tax	494	537	494	537

Notes to the consolidated financial statements

for the year ended 31 December 2012

21 Retirement benefits

(a) Defined Benefit Pension Scheme (DB Scheme)

The Group operates a funded DB Scheme in the UK which offers both pensions in retirement and death benefits to members. Pension benefits are related to the members' final salary at retirement and their length of service. A full actuarial valuation was carried out as at 30 April 2011; the results have been updated to 31 December 2012 by a qualified independent actuary and showed a deficit at that date of £9.8 million gross of deferred tax, measured in accordance with FRS 17: Retirement Benefits.

As the DB Scheme is closed to new members, under the projected unit method, the current service cost, as a percentage of pensionable salaries, will increase as the members of the Scheme approach retirement. Contributions by the Group to the DB Scheme for the year beginning 1 January 2013 are currently expected to be £1.6 million of future accrual payments and £1.8 million of deficit reduction payments.

i) Net pension liability

The pension liability at 31 December was as follows:

	2012 £'000	2011 £'000
Fair value of DB Scheme assets	88,216	80,808
Present value of DB Scheme liabilities	(97,995)	(91,298)
Pension liability before tax	(9,779)	(10,490)
Related deferred tax asset	2,249	2,623
Net pension liability	(7,530)	(7,867)

The present value of unfunded DB Scheme liabilities is nil (2011: nil). The irrecoverable surplus in the DB Scheme is nil (2011: nil).

ii) Analysis of assets and expected rates of return

The assets in the DB Scheme and the expected rates of return at 31 December were:

	2012			2011		
	Expected rate of return %	% of overall DB Scheme assets	£'000	Expected rate of return %	% of overall DB Scheme assets	£'000
Equities	8.0	27.2	23,971	8.0	26.1	21,123
Corporate bonds	4.6	10.8	9,528	4.8	5.2	4,187
LDI funds and cash	2.7	39.6	34,940	2.8	46.8	37,837
Diversified Growth Funds	8.0	22.4	19,777	8.0	21.9	17,661
Fair value of DB Scheme assets		100.0	88,216		100.0	80,808

The DB Scheme assets do not include any of the Company's own financial instruments, nor any property occupied by, or other assets used by the Company.

Notes to the consolidated financial statements

for the year ended 31 December 2012

21 Retirement benefits (continued)

iii) Financial and demographic assumptions

The principal financial assumptions used by the actuary at the balance sheet date were:

	2012	2011
	%	%
Rate of increase in salaries	4.1	4.2
Rate of increase in pensions in payment (post April 1997)	3.6	3.7
Discount rate	4.6	4.8
Inflation assumption	3.1	3.2

The assumed life expectancies on retirement at age 65 were:

		2012	2011
		Years	Years
Retiring today	males	22.0	22.8
	females	25.2	24.2
Retiring in 20 years' time	males	23.4	24.2
	females	26.7	25.8

The assumptions used in determining the overall expected return of the DB Scheme have been set with reference to yields available on government bonds and appropriate risk margins.

iv) Changes in fair value of DB Scheme assets

	2012	2011
	£'000	£'000
Fair value of DB Scheme assets at 1 January	80,808	74,025
Expected return on DB Scheme assets	4,193	4,349
Actuarial gain	1,797	580
Contributions by employer	3,116	3,182
Contributions by DB Scheme members	665	712
Benefits paid	(2,363)	(2,040)
Fair value of DB Scheme assets at 31 December	88,216	80,808

The expected return on DB Scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on DB Scheme assets in the year was £6.0 million (2011: £4.9 million).

Notes to the consolidated financial statements

for the year ended 31 December 2012

21 Retirement benefits (continued)

v) Changes in present value of DB Scheme liabilities

	2012 £'000	2011 £'000
Present value of DB Scheme liabilities at 1 January	91,298	81,329
Current service cost	1,752	1,563
Interest cost	4,384	4,479
Contributions by DB Scheme members	665	712
Actuarial loss	2,259	5,255
Benefits paid	(2,363)	(2,040)
Present value of DB Scheme liabilities at 31 December	97,995	91,298

vi) Analysis of amounts recognised in the profit and loss account

	2012 £'000	2011 £'000
Current service cost	1,752	1,563
Total operating charge	1,752	1,563
Expected return on DB Scheme assets	(4,193)	(4,349)
Interest on DB Scheme liabilities	4,384	4,479
Total finance charge (note 6)	191	130

vii) Cumulative actuarial gains and losses recognised in equity

	2012 £'000	2011 £'000
Cumulative actuarial loss at 1 January	(24,348)	(19,673)
Actuarial loss in the year	(462)	(4,675)
Cumulative actuarial loss at 31 December	(24,810)	(24,348)

Notes to the consolidated financial statements

for the year ended 31 December 2012

21 Retirement benefits (continued)

viii) History of DB Scheme

Assets and liabilities

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Fair value of DB Scheme assets	88,216	80,808	74,025	65,123	54,714
Present value of DB Scheme liabilities	(97,995)	(91,298)	(81,329)	(72,419)	(51,292)
Pension (liability) / asset before tax	(9,779)	(10,490)	(7,304)	(7,296)	3,422

Actuarial gains and losses

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Total actuarial (loss) / gain recognised	(462)	(4,675)	(1,697)	(13,772)	6,419

Experience adjustments

	2012	2011	2010	2009	2008
Experience adjustments to DB Scheme assets amount (£'000)	1,797	580	2,588	3,861	(7,176)
% of DB Scheme assets	2.0	0.7	3.5	5.9	(13.1)
Experience adjustments to DB Scheme liabilities amount (£'000)	(210)	(3,739)	-	-	(666)
% of DB Scheme liabilities	(0.2)	(4.1)	-	-	(1.3)

As The Altro Group plc has no employees, no DB Scheme disclosures are given for the Company.

Contributions by the Group to the DB Scheme will be made at a rate of 18.2% of members' salaries during 2013.

(b) Defined Contribution Pension Schemes (DC Schemes)

The Group makes contributions into a number of Defined Contribution Pension Schemes, whose assets are held in separate funds. The total contributions payable by the Group in the year in respect of these Schemes were £346,107 (2011: £264,032). There were no accrued contributions at the year end (2011: nil). Contributions of £2,464,668 were prepaid at the year end (2011: £2,650,680).

Notes to the consolidated financial statements

for the year ended 31 December 2012

22 Share-based payment

During the year ended 31 December 2012, the Group operated three share-based payment arrangements, as follows:

The Altro Group plc 2007 United Kingdom Approved Share Option Scheme (Approved Scheme)

The Approved Scheme was introduced in 2007. Under the Approved Scheme the board can grant options over shares in the Company to employees of the Group. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is ten years. Awards are generally reserved for employees at senior and director level. There are currently nine eligible employees. The Company has made annual grants since the inception of the Approved Scheme. Options granted under the Approved Scheme will become exercisable on the third anniversary of the date of grant and exercise is conditional on there having been real growth in the earnings per share of the Group in any three years between the date the option was granted and date of exercise. Real growth means an increase above the General Index of Retail Prices of not less than 2% and earnings per share are as shown in the Group's audited financial statements. Exercise of an option is subject to continued employment and can be satisfied in either cash or equity.

The Altro Group plc Phantom Share Option Scheme 2005 (Phantom Scheme)

The Phantom Scheme was introduced in 2005 and the board can grant options over notional shares in the Company to employees of the Group. The contractual life of an option is seven years and options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. Awards under the Phantom Scheme are generally reserved for employees at senior and director level. There are currently nine eligible employees. The Company has made annual grants since 2006. Options granted will become exercisable on the third anniversary of the date of grant. There are no performance conditions attached to the exercise of an option under the Phantom Scheme. An option is usually satisfied in cash although the board does have an absolute discretion to satisfy payment in whole or in part by the issue of equity in the Company.

The Altro Group plc Share Incentive Plan (SIP)

The SIP was introduced in 2003 and the board can award Free Shares in the Company to UK based employees of Altro Limited. Under current legislation Free Shares must be kept in trust for a minimum of three years and for five years to take advantage of full tax benefits. There is an upper statutory limit of £3,000 worth of shares per tax year. Awards are granted with a fixed price equal to the market price of the shares at the date of Award. Awards under the SIP are reserved for employees who have been in continuous employment for a period of six months prior to the Award eligibility date. The eligibility date is set one month prior to the Award date. Recipients of a grant made under either the Approved Scheme or Phantom Scheme do not participate in the SIP. There are currently 450 eligible employees. The Company has made annual Awards since 2003 and there are no performance conditions attached to an Award. An Award is satisfied by the issue of equity shares. The exercise price is nil and dividends are paid as they fall due.

The charge in respect of share-based payment transactions included in the Group's consolidated profit and loss account for the year is as follows:

	2012	2011
	£'000	£'000
Expense arising from share-based payment arrangements	667	799

A reconciliation of option and SIP movements over the year to 31 December 2012 is shown below. Shares issued under the SIP do not have an exercise price and therefore only a reconciliation of the number of awards has been shown and not of their weighted average exercise price.

	2012		2011	
	Number of options	Weighted average exercise price pence	Number of options	Weighted average exercise price pence
Outstanding at 1 January	798,175	382	1,188,410	340
Granted during the year	190,436	475	193,225	441
Exercised during the year	(227,561)	350	(575,483)	317
Cancelled during the year	(6,185)	485	(7,977)	376
Outstanding at 31 December	754,865	409	798,175	382
Exercisable at 31 December	144,841	422	98,965	384

Notes to the consolidated financial statements

for the year ended 31 December 2012

22 Share-based payment (continued)

During the year one director exercised share options (2011: four).

The weighted average fair value of the share options granted during the year was calculated using the Black-Scholes option valuation model, with the following assumptions and inputs:

	2012	2011
Risk-free interest rate	0.6%	0.8%
Expected volatility	50%	50%
Expected option life	4 years	4 years
Expected dividend yield	3.0%	2.5%

The expiry dates and exercise prices of the share options outstanding at 31 December are as follows:

Share option schemes	Settlement method	Number of options		Exercise price pence	Exercisable between
		2012	2011		
Approved	Equity	27,078	33,263	485	03.04.2011 and 03.04.2015
		10,123	10,123	404	05.03.2012 and 05.03.2019
		17,475	17,475	515	04.04.2014 and 04.04.2021
		1,633	-	475	11.04.2015 and 11.04.2022
Total Approved		56,309	60,861		
Phantom	Cash	-	27,260	262	21.04.2009 and 21.04.2013
		10,449	29,094	352	18.04.2010 and 18.04.2014
		3,961	9,348	485	18.04.2010 and 18.04.2014
		7,281	11,849	485	03.04.2011 and 03.04.2015
		85,949	121,934	404	05.03.2012 and 05.03.2016
		149,276	174,884	316	15.07.2013 and 15.07.2017
		103,893	103,893	515	04.04.2014 and 04.04.2018
		125,569	-	475	11.04.2015 and 11.04.2019
Total Phantom		486,378	478,262		
Share Incentive Plan	Equity	212,178	259,052		
Total Share Incentive Plan		212,178	259,052		
Total share options outstanding		754,865	798,175		

Notes to the consolidated financial statements

for the year ended 31 December 2012

23 Called up share capital

Authorised, called up, allotted and fully paid share capital

	2012 £'000	2011 £'000
Authorised:		
50,000,000 ordinary shares of 10p each (2011: 50,000,000 ordinary shares of 10p each)	5,000	5,000
Called up, allotted and fully paid:		
17,494,356 ordinary shares of 10p each (2011: 17,626,339 ordinary shares of 10p each)	1,749	1,763

Movements in share capital in the year

	2012 Number of shares	2011 Number of shares
At 1 January	17,626,339	17,767,933
Shares issued	-	152,091
Own shares purchased	(131,983)	(293,685)
At 31 December	17,494,356	17,626,339

Allotment of shares

During the year no options were exercised to acquire ordinary shares. 117,453 options were exercised under The Altro Group plc Phantom Share Option Scheme 2005, which did not result in the issue of shares.

Purchase of own shares

During the year the Company purchased and subsequently cancelled 131,983 of its own shares. The nominal value of the shares was £13,198 (2011: £29,368) and the amount paid was £667,833 (2011: £1,999,994).

Major shareholdings

In addition to the interests of the directors, at 31 December 2012 there were the following substantial interests in the shares of the Company:

Shareholder	Shares	%
B L Cohen	1,140,293	6.5%
K Harrison	804,652	4.6%
M Harmer	688,300	3.9%

Shareholder analysis

	Number	Shares (millions)	%
Directors and their families	15	10.8	61.9
Employees, ex-employees and their families	371	3.8	21.6
The Share Incentive Plan and the Employee Benefit Trust	11	0.9	5.1
Institutions	1	0.2	0.9
Other	2	1.8	10.5
	400	17.5	100.0

Notes to the consolidated financial statements

for the year ended 31 December 2012

24 Reserves

	Called up share capital £'000	Share premium account £'000	Other reserves		Profit and loss account £'000	Total reserves £'000
			Capital redemption reserve £'000	Own shares £'000		
The Group						
At 1 January 2012	1,763	6,991	959	(1,793)	49,480	57,400
Dividends paid	-	-	-	-	(2,306)	(2,306)
Actuarial loss on DB Scheme	-	-	-	-	(356)	(356)
Purchase of own shares	(14)	-	14	-	(668)	(668)
Purchase of own shares for the SIP	-	-	-	-	(320)	(320)
Purchase of own shares by the EBT	-	-	-	(1,244)	-	(1,244)
Disposal of own shares by the EBT	-	-	-	635	(10)	625
Share issue	-	-	-	-	-	-
Currency translation differences	-	-	-	-	(370)	(370)
Increase in reserves arising from share-based payments	-	-	-	-	320	320
Profit for the financial year	-	-	-	-	7,228	7,228
At 31 December 2012	1,749	6,991	973	(2,402)	52,998	60,309

	Called up share capital £'000	Share premium account £'000	Other reserves		Profit and loss account £'000	Total reserves £'000
			Capital redemption reserve £'000	Own shares £'000		
The Company						
At 1 January 2012	1,763	6,991	959	(1,793)	22,297	30,217
Dividends paid	-	-	-	-	(2,306)	(2,306)
Purchase of own shares	(14)	-	14	-	(668)	(668)
Purchase of own shares for the SIP	-	-	-	-	(320)	(320)
Purchase of own shares by the EBT	-	-	-	(1,244)	-	(1,244)
Disposal of own shares by the EBT	-	-	-	635	(10)	625
Share issue	-	-	-	-	-	-
Capital contribution arising from share-based payments	-	-	-	-	320	320
Profit for the financial year	-	-	-	-	11,471	11,471
At 31 December 2012	1,749	6,991	973	(2,402)	30,784	38,095

Notes to the consolidated financial statements

for the year ended 31 December 2012

25 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2012 £'000	2011 £'000
Operating profit	10,144	8,752
Depreciation charge	3,255	3,031
DB Scheme contributions	(3,116)	(3,182)
DB Scheme operating charge	1,752	1,563
Amortisation of intangible fixed assets	162	182
Loss on disposal of tangible fixed assets	25	288
(Decrease) / increase in net provisions	(549)	39
Currency translation differences and other non-cash movements	167	(319)
Decrease / (increase) in stock	450	(2,883)
Increase in debtors and prepayments	(773)	(1,946)
(Decrease) / increase in creditors	(1,046)	776
Net cash inflow from operating activities	10,471	6,301

(b) Analysis of cash flows for amounts netted in cash flow statement

	2012 £'000	2011 £'000
Returns on investments and servicing of finance		
Interest received	101	145
Interest paid	(13)	(4)
	88	141
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(8,999)	(6,422)
Disposal of tangible fixed assets	29	18
Purchase of own shares for the Share Incentive Plan	(320)	(319)
Purchase of own shares by the Employee Benefit Trust	(1,244)	(2,133)
Disposal of own shares by the Employee Benefit Trust	625	1,313
	(9,909)	(7,543)

(c) Analysis of net funds

	Cash at bank and in hand £'000	Bank overdrafts £'000	Total £'000
At 1 January 2012	13,813	(2,498)	11,315
Cash flow	(3,983)	(349)	(4,332)
Exchange movements	(102)	-	(102)
At 31 December 2012	9,728	(2,847)	6,881

Notes to the consolidated financial statements

for the year ended 31 December 2012

26 Capital commitments

	2012 £'000	2011 £'000
Contracted but not provided for	2,538	5,279

27 Related party transactions

The Company has taken advantage of the exemption available under FRS 8: Related Party Transactions and has not disclosed transactions with other Group companies.

28 Ultimate parent company

The ultimate parent undertaking and controlling party is The Altro Group plc, a Company incorporated in Great Britain and registered in England and Wales. For the year ended 31 December 2012, The Altro Group plc is the parent undertaking of the largest and smallest group of undertakings whose results are consolidated in these financial statements at 31 December 2012.

Five year financial summary

This summary does not form part of the audited financial statements.

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Balance sheet					
Fixed assets	42,929	37,409	34,517	33,711	36,691
Current assets	41,378	45,507	47,777	49,236	43,845
Total assets	84,307	82,916	82,294	82,947	80,536
Ordinary shareholders' funds	60,309	57,400	59,442	61,638	66,787
Borrowings:					
due within one year	-	-	-	-	59
Other creditors	16,468	17,649	17,593	16,056	16,154
Defined Benefit Pension Scheme liability / (asset)	7,530	7,867	5,259	5,253	(2,464)
Total funds employed	84,307	82,916	82,294	82,947	80,536
Turnover and profits					
Turnover	112,297	109,338	109,826	111,749	120,346
Operating profit	10,144	8,752	12,504	11,862	14,082
Profit for the financial year	7,228	6,222	8,405	7,105	9,885
Ordinary dividends	2,306	2,332	2,208	2,255	2,387
	Pence	Pence	Pence	Pence	Pence
Diluted earnings per share	42.1	35.6	46.9	34.5	47.0
Dividends per share	13.5	13.5	13.5	12.0	11.0
Net assets per share	344.7	325.6	334.5	295.8	314.9
Gearing ratio %	0.0	0.0	0.0	0.0	0.1
Average number of employees	636	621	615	617	632

The final dividends are not included in the ordinary dividends total above, in accordance with FRS 21 (see note 11). They are included in the dividends per share.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of The Altro Group plc will be held at Works Road, Letchworth Garden City, Hertfordshire, SG6 1NW on 20 June 2013, at 5.00pm.

Ordinary business

1. To receive and adopt the report of the directors and the financial statements for the year ended 31 December 2012, together with the report of the auditors.
2. To declare a final dividend of 9.0p per issued Ordinary Share of 10p each of the Company in respect of the year ended 31 December 2012.
3. To authorise the directors' remuneration payable for the year ended 31 December 2012.
4. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the directors to agree their remuneration.

Special business

5. To consider and if thought fit, pass the following resolution which will be proposed as a special resolution:
THAT the terms of the proposed contracts whereby the Company shall become entitled and obliged to purchase up to 210,526 shares of 10p each at a price of 475p per share, copies of which have been available for inspection by the members of the Company at the Company's registered office for not less than fifteen days ending with the date hereof and copies of which have been produced to the Meeting and initialled for the purpose of identification by the Company Secretary, are hereby approved and any director of the Company is hereby authorised to enter into the said contracts on behalf of the Company at any time before the conclusion of the next Annual General Meeting.
6. To consider and if thought fit, pass the following resolution which will be proposed as an ordinary resolution:
THAT pursuant to section 551 of the Companies Act 2006 ("Act") and in substitution for all existing authorities, the directors be and are generally and unconditionally authorised to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £3,250,564 for a period expiring fifteen months after the date of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, but the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after expiry of this authority and the directors may allot shares or grant such rights in pursuance of that offer or agreement as if the authority conferred by this resolution had not expired.
7. To consider and if thought fit, pass the following resolution which will be proposed as a special resolution:
THAT in substitution for all existing powers and subject to the passing of resolution 6, the directors be and are generally empowered pursuant to section 570 of the Act to allot equity securities, within the meaning of section 560 of the Act, for cash pursuant to the general authority conferred by resolution 6 as if section 561 of the Act did not apply to the allotment, for a period of fifteen months after the date of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, but the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the directors may allot securities in pursuance of that offer or agreement as if the power conferred by this resolution had not expired, but so that the aggregate nominal value of the equity securities allotted under this authority does not exceed £87,471.

By Order of the Board



E P Boyle
Secretary

8 May 2013

Registered Office: Works Road, Letchworth Garden City, Hertfordshire, SG6 1NW

Note: A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him or her. A proxy need not be a member of the Company. See form of proxy for more details.