ALENT

# Annual Report & Accounts

FOR THE YEAR ENDED 31 DECEMBER 2012

STOCK CODE: ALNT

# Welcome

## Welcome to the first Annual Report of Alent plc.

ALENT IS A LEADING SUPPLIER OF ADVANCED, CONSUMABLE SPECIALTY CHEMICALS AND ENGINEERED MATERIALS USED PRIMARILY IN THE ELECTRONICS, AUTOMOTIVE AND INDUSTRIAL END MARKET SEGMENTS.

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THIS IS THE FIRST ANNUAL REPORT OF ALENT PLC.

FOLLOWING THE DEMERGER OF THE MAIN DIVISIONS OF COOKSON GROUP PLC, ALENT WAS LISTED ON THE LONDON STOCK EXCHANGE ON 19 DECEMBER 2012.

ALENT COMPRISES TWO FOCUSED SPECIALTY CHEMICAL & MATERIALS BUSINESS UNITS:

- ASSEMBLY MATERIALS (trading as Alpha — a supplier of solder, fluxes, polymer materials and related products); and
- SURFACE CHEMISTRIES (trading as Enthone — a supplier of electroplating chemicals).

ALENT

## STRENGTHS AND CAPABILITIES

- Market leadership through differentiating products and solutions
- Technology and fast cycle R&D providing innovation driven growth
- Participating in high growth markets
- Global footprint, close to industry defining customers in Asia
- Long-standing collaborative customer relationships
- Value add sales strategy targeting OEMs

# CONTENTS

# Key Highlights

## 2012: A resilient year from which to build the future

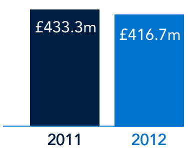
### OPERATIONAL HIGHLIGHTS

- 19 December 2012 — Alent listed on London Stock Exchange
- A focused leading supplier of specialty chemicals and engineered materials
- Assembly Materials outperformed the market
- Surface Chemistries impacted by weaker global electronics and European automotive demand
- Continued investment in future growth of the business
- Well placed to make further progress in 2013

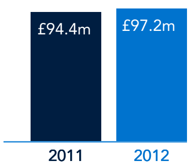
### FINANCIAL RESULTS

- NSV[1] at £416.7m (2011: £433.3m), flat on a constant currency basis
- Adjusted operating profit[2] up 3% to £97.2m (2011: £94.4m)
- NSV[1] margin up 1.5ppts to 23.3% (2011: 21.8%)
- Adjusted profit before tax[3] (PBT) up 2.2% to £89.0m (2011: £87.1m)
- Adjusted earnings per share[4] up 2.1% to 24.6p (2011: 24.1p)
- Adjusted cash generated from operations[5] of £86.0m (2011: £93.0m)
- Net debt at 31 December 2012 of £144.4m
- Recommended final dividend of 5.5 pence per share
- Statutory profit before tax of £73.2m (2011: £94.4m)
- Statutory basic earnings per share of 16.2p (2011: 27.0p)

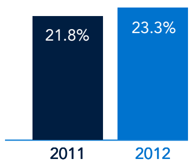
NSV[1]
**£416.7m**
2011: £433.3m



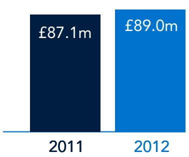

ADJUSTED OPERATING PROFIT[2]
**£97.2m**
2011: £94.4m



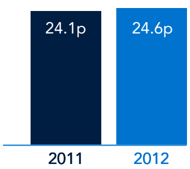

NSV[1] MARGIN
**23.3%**
2011: 21.8%



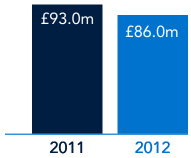

ADJUSTED PBT[3]
**£89.0m**
2011: £87.1m




ADJUSTED EPS[4]
**24.6p**
2011: 24.1p




ADJUSTED CASH GENERATED FROM OPERATIONS[5]
**£86.0m**
2011: £93.0m




1 Net sales value is revenue less commodity metals (tin, silver, gold)
2 Adjusted operating profit is equal to operating profit before share of profit of joint ventures, exceptional items, demerger costs and including the effect of proforma adjustments (see detail on page 18)
3 Adjusted profit before tax is equal to profit before tax before exceptional items, demerger costs and including the effect of proforma adjustments (see detail on page 18)
4 Adjusted earnings per share are based upon adjusted profit for the year
5 Adjusted cash generated from operations is equal to cash generated from operations after adding back £21.7m (2011: £nil) of Woking restructuring and demerger cash costs

# Chairman's Letter

"As a stand-alone global specialty chemicals and materials Company, we now have the opportunity to demonstrate our position as the preferred supplier of high performance materials and chemistry to our customers."

**Peter Hill, CBE** Chairman

## DEAR SHAREHOLDER

### INTRODUCTION

I am privileged to introduce this first Annual Report of Alent plc as an independent company, following the demerger of Cookson Group plc in December 2012. In May 2012, the Cookson Board undertook a strategic review which concluded that a demerger was the best option for maximising the value of the Cookson Group and creating value for its shareholders. The demerger was completed in December 2012 and Alent is now listed on the London Stock Exchange and is a constituent of the FTSE 250 in the Specialty Chemicals sector.

As a stand-alone global specialty chemicals and materials Company, we now have the opportunity to demonstrate and to build on our position as the preferred supplier of high performance materials and chemistry across the electronics, industrial and automotive markets.

We set out in this report how we will execute and further develop our strategy. We focus on our existing specialist high growth end-markets while also developing new ones, bringing to market new high-margin products while continuing to enhance our operational efficiencies and expanding our OEM sales, while developing our technology and innovation leadership. We believe that this strategy will result in our continuing to deliver value for our shareholders.

### RESULTS

Alent improved its business fundamentals and doubled its adjusted operating profit from 2008 to 2011. Despite a difficult macro-economic environment in 2012, that growth continued during the year with adjusted operating profit increasing 3% to £97.2m (2011: £94.4m) and adjusted Earnings Per Share (EPS) increasing 2.1% to 24.6p (2011: 24.1p). Adjusted cash generated from operations was £86.0m (2011: £93.0m) and represented a cash conversion of 88% of adjusted operating profit.

### DIVIDEND

As stated in the Alent Prospectus, the Board is recommending a final dividend of 5.5 pence per share, subject to shareholder approval at the AGM on 21 May 2013.

Alent is a cash generative business with the opportunity for investments to enhance its growth prospects, both through organic investments including new product development, and through bolt-on acquisitions. The Board intends to pursue a progressive dividend policy that reflects this strategy, with dividend growth expected to be at least in line with underlying earnings growth, targeting a dividend cover in the near term within a range of 3.0 to 2.8 times.

### HEALTH, SAFETY, ENVIRONMENT & SUSTAINABILITY (HSES)

The Board has overall responsibility for Alent's HSES policy and for monitoring its implementation. While our activities in this important area continue to be of a high standard and there were no major incidents during the year, as a new Company I look forward to increased focus on this area.

### BOARD

Alent begins its new corporate life with what I believe to be a very strong and experienced Board, bringing together new appointees as well as Directors with historical knowledge of Alent and its industries. Our management team in particular has many years of experience in our business and in our markets. I believe the Board has the right depth and mix of skills, experience, knowledge and independence to maximise the opportunities for Alent and its shareholders. The biographies of our Board are set out on pages 44 to 45.

### GOVERNANCE

The Board is committed to the principles of best practice in corporate governance. We act in accordance with the principles of the UK Corporate Governance Code, issued by the Financial Reporting Council, and the Companies Act. Ultimate responsibility for the management of the Company rests with the Board of Directors. The Board focuses primarily upon strategic, policy and governance issues, acting in accordance with the best interests of shareholders as a whole. It also approves the Group strategy, oversees the allocation of resources and monitors the Group's performance.

### DIVERSITY

The Board recognises the benefits to the Company of diversity, both within our operations and at Board level. We support the Davies Review 'Women on Boards' as well as the Financial Reporting Council's statement on proposed changes to the Code relating to gender diversity on Boards.

### OUR PEOPLE

Finally, on behalf of the Board, I would like to thank all of our people for the invaluable contribution they make to our continuing success. Alent's growth and development over recent years is as a direct result of their persistent hard work, dedication and achievement of results, and I believe we all look forward with enthusiasm and confidence.

**Peter Hill, CBE**
Chairman
28 March 2013

# What We Do

We supply high performance consumable products and services which create value by enabling superior end-product performance in the areas of functionality, reliability and longevity.

## WHAT ALENT OFFERS

- Highly engineered and customised specialty chemicals and materials;
- enabling applications serving fast growing segments in the electronic, automotive and industrial end-markets;
- technically advanced products which enable customers to produce next generation devices;
- "Just in time" delivery from a global manufacturing base of 23 facilities strategically located around the world; and
- relationships with our customer base that develop a deep understanding of our end customers' manufacturing processes and future material needs.


## WHAT ALENT PRODUCES

- Semiconductor fabrication materials, such as damascene copper electroplating chemistry which provides the "wires" within a semiconductor integrated circuit chip;
- semiconductor packaging materials, including solder spheres for ball grid arrays and chip-scale packages, die attach adhesives and copper pillar electroplating chemistry;
- interconnect materials, principally electroplating chemistries for fabrication of printed circuit boards;
- assembly materials, comprising solder in a variety of forms, including bar, wire, solder paste and preforms; and
- non-electronic electroplating products and services, principally for automotive applications which include decorative, wear-resistant and corrosion-resistant applications.


page 06
For more detailed information on Assembly Materials

page 07
For more detailed information on Surface Chemistries

QR
To view this page online scan with your media device

## ASSEMBLY MATERIALS

Provides innovative materials for use in electronic products such as smartphones, tablets, laptop computers, flat screen TVs and digital cameras.

| OUR PRODUCT (SURFACE MOUNT ASSEMBLY) | ITS FUNCTION | END APPLICATION | END MARKET |
|---|---|---|---|
| **Solder paste** | Used in surface mount assembly process — using a stencil to place small deposits of solder onto a printed circuit board | Electronic equipment | Electronics |
| **Wire solder** | Used in touch-up and rework applications | Electronic equipment | Electronics |
| **Preforms** | Solder components engineered into specific shapes/forms | Electronic equipment | Electronics |
| **Stencils** | Used to apply adhesive and solder paste onto a printed circuit board | Electronic equipment | Electronics |
| **OUR PRODUCT (WAVE SOLDER ASSEMBLY)** | **ITS FUNCTION** | **END APPLICATION** | **END MARKET** |
| **Bar solder and Flux** | Used in mature wave soldering process | Electronic equipment | Electronics |
| **OUR PRODUCT (MICRO-ELECTRONICS)** | **ITS FUNCTION** | **END APPLICATION** | **END MARKET** |
| **Electronic polymers** | Used for packaging, sealing and conductive adhesives | Semiconductors | Electronics |
| **Solder spheres** | Used for integrated circuit and printed circuit board connections | Semiconductors | Electronics |
| **Die attach** | Used to attach the semiconductor chip to the package | Semiconductors | Electronics |
| **PV ready ribbon** | A pre-fluxed solder coated copper ribbon used for connecting solar cells within a solar panel | Solar power | Electronics |
| **OTHER** | **ITS FUNCTION** | **END APPLICATION** | **END MARKET** |
| **Reclaim** | Metal recycling business — reclaim of waste solder, used again in solder manufacturing processes | Electronic equipment | Electronics |
| **Water treatment** | Produces chemicals for industrial markets | Household/plumbing | Industrial |

## SURFACE CHEMISTRIES

Provides specialty chemistry coatings and materials for use in electronic, automotive and industrial products which enhance wear and corrosion protection, enable electronic performance and improve appearance.

| OUR PRODUCT (PERFORMANCE COATINGS) | ITS FUNCTION | END APPLICATION | END MARKET |
|---|---|---|---|
| **Decorative coatings** | Decorative electroplating chemistries developed to enable plating directly onto plastic in industrial and automotive markets | Industrial/automotive | Industrial/ Automotive |
| **Wear resistant coatings** | Chromium electroplating chemistries used in industrial applications and for use on auto parts such as engine valves and shock absorber cylinders | Industrial/automotive | Industrial |
| **Corrosion resistant coatings** | Zinc alloy electroplating chemistries used in industrial, building and auto markets (e.g. on brake calipers and fasteners) | Industrial/automotive | Industrial |
| **OUR PRODUCT (ELECTRONICS)** | **ITS FUNCTION** | **END APPLICATION** | **END MARKET** |
| **Damascene copper** | Electroplating chemistry used to create the wires within a semiconductor integrated circuit chip | Semiconductor | Electronics |
| **Wafer bumping chemistries** | Electroplating for connections within the integrated circuit | Semiconductor | Electronics |
| **Interconnect materials** | Electroplating chemistries for fabrication of printed circuit boards | Printed circuit boards | Electronics |

# What We Do continued

## We add value to our customers' businesses by providing products, processes and services which allow them to increase the efficiency and quality of their operations and products.

## ASSEMBLY MATERIALS — predominantly electronics market focused

| NSV | ADJUSTED OPERATING PROFIT | NSV MARGIN |
|---|---|---|
| £208.0m | £58.7m | 28.2% |
| 2011: £214.1m | 2011: £53.7m | 2011: 25.1% |
| constant currency +2.3% | constant currency +9.9% | constant currency +2.0ppts |

### ASSEMBLY MATERIALS

Our Assembly Materials business is a global leader in the development, manufacturing and sales of innovative materials used in electronic assembly processes. With a unique worldwide presence in 50 locations throughout the Americas, Europe and the Asia/Pacific region, Assembly Materials supplies a full line of solder paste, stencils, bar solder, wire solder, and wave soldering fluxes. We also manufacture enabling technology products for the power electronics, LED/opto-electronics and photovoltaic industries.

Assembly Materials has been committed to developing and manufacturing the highest quality soldering materials. That tradition continues today through our innovative products, including our line of environmentally friendly, lead-free electronic assembly products.

### PRODUCTS

Assembly Materials is one of the leading global suppliers of materials to assemblers of printed circuit boards and the semiconductor packaging industry. These products (of which solder represents nearly 80% of revenue) are used primarily to attach electronic components, such as semiconductors and capacitors, onto printed circuit boards and to form the necessary electrical and physical connection between the board and its components.

Assembly Materials' products enhance the connectivity and are essential to the longevity, reliability and functionality of the ultimate electronic device (i.e. a broken solder joint can stop the electronic device from functioning). As importantly, Assembly Materials' products are also critical to the cost and efficiency of the process by which the electronic devices are manufactured. These are typically highly automated and use mass manufacturing techniques so productivity and reducing reject rates and wastage are very cost sensitive issues for customers. The technical specification of the product combined with the consistency and reliability of supply are therefore vitally important to customers.

**Printed circuit board assembly**

In printed circuit board assembly, the principal product lines include solder, fluxes, adhesives, cleaning chemistries and stencils. Solder can be supplied to customers in either bar form (i.e. solid, and sold as an ingot, which is used predominantly in the more mature wave soldering technology for assembling printed circuit boards); wire form (used for touch-up and repair work); paste form (used in the more modern and technologically advanced surface mount technology for assembling printed circuit boards); powder form; sphere form; or as preforms. Solder paste can also be supplied in leaded and lead-free options.

**Semiconductor packaging**

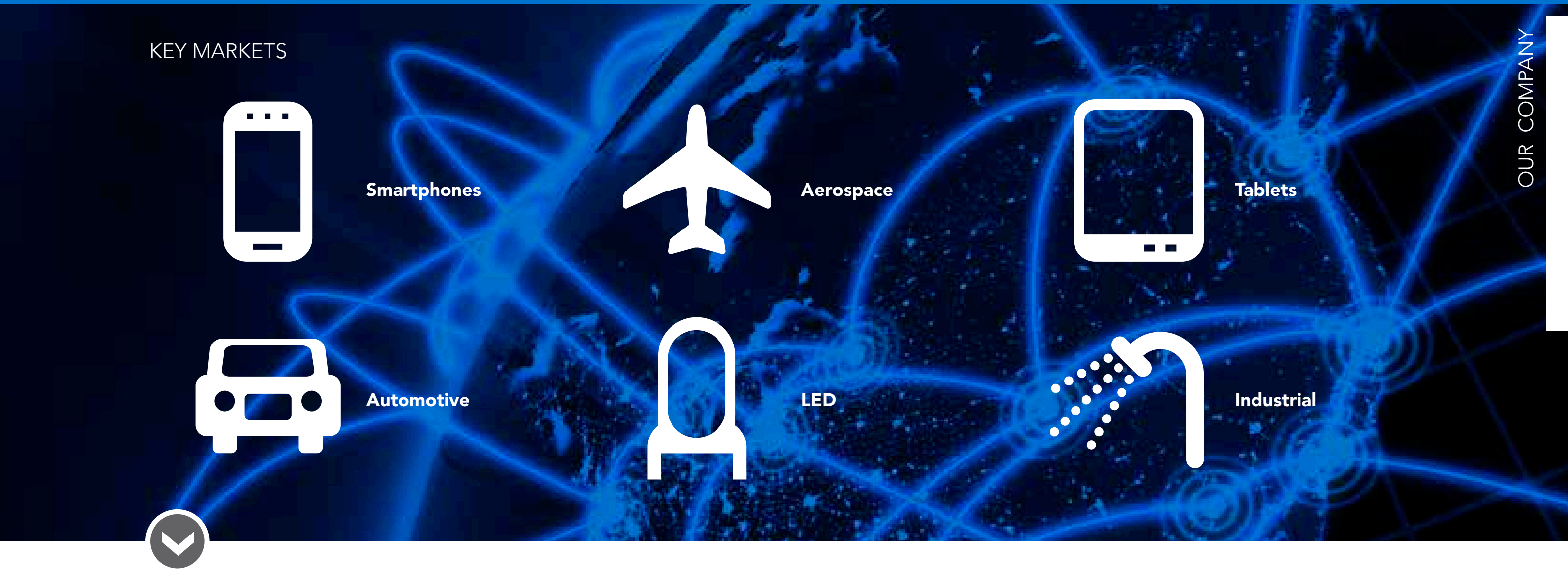
The Assembly Materials' product line also supplies the semiconductor packaging industry with solder products, including solder spheres which are used to connect the package to the printed circuit board and to provide electrical and thermal insulation.

**Non-electronics market**

Assembly Materials also manufactures and markets a respected range of leading products and services globally to the plumbing, automotive and water treatment industries. Our current product portfolio covers traditional chemical water treatment and heat transfer fluids for renewable technologies, solders and fluxes, filters and equipment.

A full definition of non-GAAP measures is outlined on page 87

KEY MARKETS




## SURFACE CHEMISTRIES — Serving mainly the electronics and automotive markets

| NSV | ADJUSTED OPERATING PROFIT | NSV MARGIN |
|---|---|---|
| **£208.7m** | **£46.0m** | **22.0%** |
| 2011: £219.2m | 2011: £48.2m | 2011: 22.0% |
| constant currency (2.7%) | constant currency (4.4%) | constant currency (0.4ppts) |

### SURFACE CHEMISTRIES

A global supplier of high performance specialty chemistry, coatings and materials to the electronics and surface finishing industries, our Surface Chemistries business makes everything you see, and many things you don't see, last longer, work better and look more beautiful.

Our coatings add value to a diversity of metals, plastics and other substrates by improving or changing performance characteristics, and extending product life. Leading OEMs worldwide depend on our products to enhance wear and corrosion protection, enable electronic performance and improve their product appearance.

Surface Chemistries delivers enabling technologies that create customer value, meet ever-changing market dynamics and address environmental compliance issues associated with the following technology requirements: lead-free, hexavalent chrome-free, cyanide-free, halogen-free, cadmium-free and nickel-free.

### PRODUCTS

Surface Chemistries' specialty chemicals are used by a wide range of industries and feature a robust and patented technology portfolio that provides function, value, reliability and style to a diverse range of electronic, functional and decorative components.

**Semiconductor interconnect materials** include copper damascene chemistry and wafer level technologies that are used to fabricate wafers and package integrated circuits respectively. Both meet the manufacturing challenges of shrinking device geometries, while enabling greater memory and logic reliability.

**Printed circuit board fabrication** chemistries are environmentally friendly by reducing water usage and energy consumption. Surface Chemistries' lead-free final finishes combine high reliability and cost-effectiveness, with exceptional performance.

**Connectors and leadframes materials** allow manufacturers to substantially decrease costly metal consumption while increasing productivity. Molded Interconnect Device technologies offer manufacturers high efficiency and increased throughput.

**Automotive coatings** include hexavalent chrome-free, lead-free, cadmium-free, and cobalt-free solutions. Automotive industry professionals trust Surface Chemistries to provide the widest portfolio of production-proven, OEM approved coatings for wear resistance, corrosion protection and decorative plating applications. Our processes extend product life on powertrains, chassis, fasteners, decorative trim and electronics components.

**Industrial finishes**

Surface Chemistries' functional coatings deliver corrosion protection and wear resistance, and include electroless nickel, high efficiency hard chrome, and zinc alloy systems to meet exacting manufacturing standards. Each system optimises quality, provides durability and increases product life.

Surface Chemistries' decorative coatings feature copper-nickel-chrome and plating on plastics processes, engineered for stability and long lasting beauty on a diversity of plastics and metals.

# Where We Operate: Our Markets

## Overall, Alent's revenue by end-market is approximately three quarters electronics, with industrial and automotive making up the balance.

In order to better understand the products and services that Alent supplies to its customers, it is important to understand the nature of the company's key end-markets.

### ELECTRONICS INDUSTRY

The principal end-market for Alent is global electronics production, which accounts for approximately three-quarters of our revenue. We supply electronic component manufacturers and assemblers, who, in turn, supply the electronic equipment manufacturers and suppliers.

It is also important to understand where Alent sits within the broader electronics supply chain. Within the assembly service segment of the supply chain, there are broadly three groups of manufacturers of electronics equipment:

- **Contract Equipment Manufacturers ("CEMs") or Electronics Manufacturing Services ("EMSs"):** companies such as Jabil, Foxconn, Sanmina-SCI and Flextronics, who manufacture products for OEMs and for other companies which consider their core competence to be design, distribution and marketing of technology rather than manufacturing (such as HP, Dell and Cisco). Whilst the CEMs and EMSs can be the ultimate end-customers for our products, and the persons to whom the physical products are supplied, the relationship with the OEM is also typically very important, as the OEMs often instruct the CEM or EMS as to whose components and materials should be used in the manufacture of their electronic devices;
- **Original Design Manufacturers ("ODMs"):** companies such as Compal Electronics who design, manufacture and service products for other organisations. Unlike EMSs, who usually manufacture from a near-final design provided by their OEM customers, ODMs sell fully designed products for OEMs and then manufacture them. ODMs are a relative newcomer to the industry. They have their roots in designing and manufacturing low-end notebook PCs; and
- **Original Equipment Manufacturers ("OEMs"):** companies such as IBM, Intel, Nokia and Samsung who design, manufacture and market their own products.

As shown in the diagram opposite, Alent operates within the electronics materials segment of the electronics value chain, where we provide highly engineered and intermediate materials to our customers. Engineered materials are formulated or processed materials which perform specific functions or have particular process characteristics, e.g. photo resist, die attach, conductive adhesive and thermal interface, while intermediate materials are refined or processed raw materials which possess electronic grade purity or properties, e.g. metals, glass, ceramics and polymers.

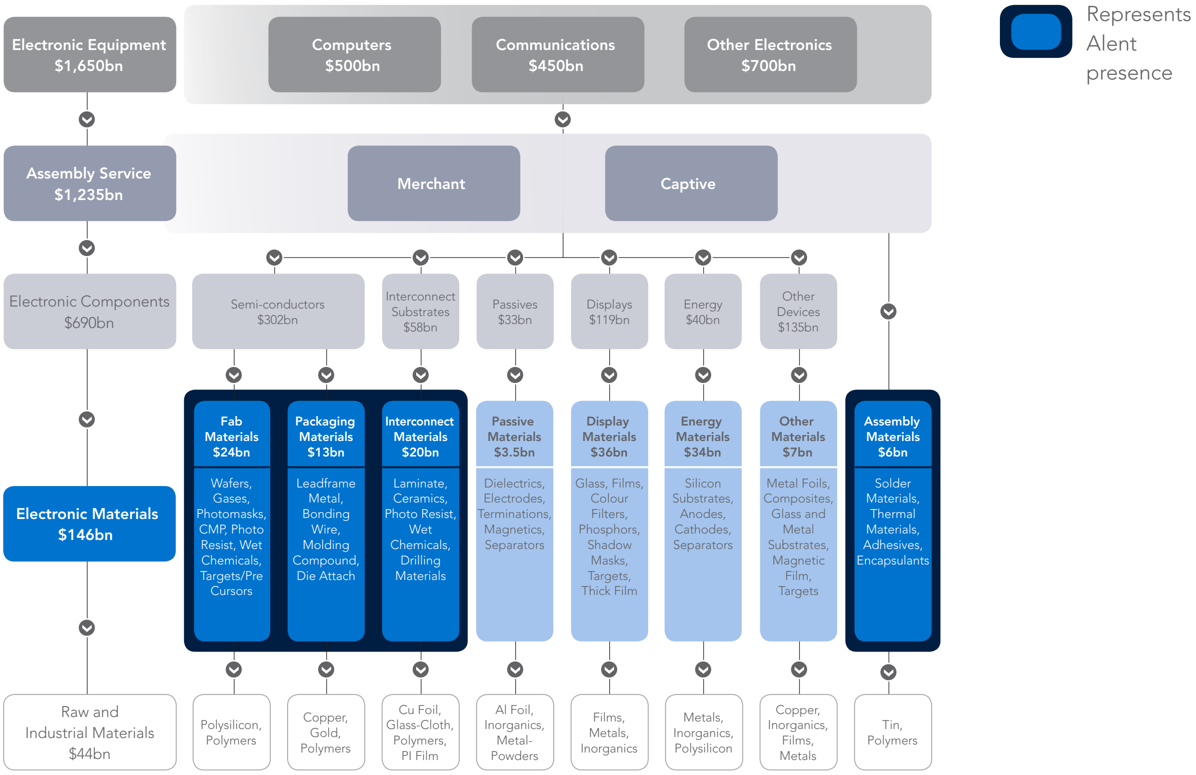
According to Prismark Partners, the electronics materials segment was estimated to be a $146bn market in 2012 and the overall market for electronic products was estimated at $1,650bn.

Our products broadly fit within the fabrication materials, packaging materials, interconnect materials and assembly materials segments and Prismark estimates these sub-sectors to be worth $24bn, $13bn, $20bn and $6bn, respectively.

In the electronics market, there is a strong trend towards increased connectivity and portability in consumer electronics. Consumer demand is for faster, smaller and lighter products, which is leading to increasing miniaturisation and complexity and the use of multi-layer circuit boards. We are at the leading edge of this trend and are a leading player in the development and supply of specialty materials into these fast-growing niches.

According to Prismark forecasts in January 2013, end-market sales of electronic goods is, on average, forecast to grow by 4.4% CAGR from 2011 to 2017 in value terms, along with significant growth in the size of the key markets in which our products are used. However, it is the volume of electronic devices which is a key growth driver for Alent. The electronics industry has historically been a "price down" industry, with reduced prices for each generation of product, which means that forecasts of market growth by value tend to understate the market growth by volume, which is the key driver of demand for our products.

## ELECTRONICS INDUSTRY VALUE CHAIN




Source: Prismark Partners, Aug 2012

## ALENT'S PERFORMANCE COMPARED WITH ITS KEY MARKETS 2012 VS 2011

| Electronics 2012 vs 2011 | NSV growth* Alent % | Estimated market growth % |
|---|---|---|
| Semiconductor | Flat | (1) |
| Printed Circuit Boards | (6) | (6) |
| Surface Mount Assembly | 8 | (6) |

Sources: Semiconductor – Prismark, Printed Circuit Boards – Prismark, Surface Mount Assembly – IPC solder products value counsel

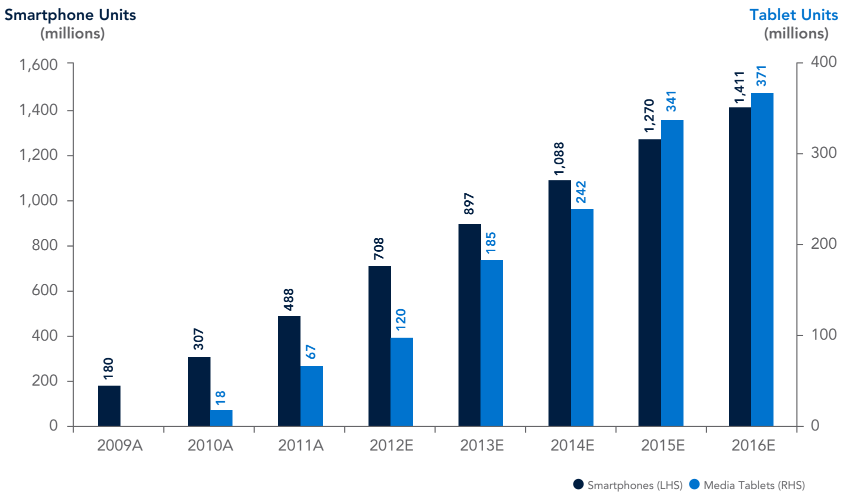
| Automotive/Industrial 2012 vs 2011 | NSV growth* Alent % | Estimated market growth† % |
|---|---|---|
| Automotive/Industrial | 2 | 4 |

Source: LMC Automotive

* at constant currency † ex Japan

# Where We Operate: Our Markets continued

## SMARTPHONES AND TABLETS DRIVE THE ELECTRONIC GOODS MARKET




**2011–2016 CAGR**
Smartphones 24%
*Mobile Phones 5%*
Media Tablets 41%
*PC 17%*

Source: Gartner

Global electronic goods can be split into the following categories (% of total in 2012, forecast by Prismark):

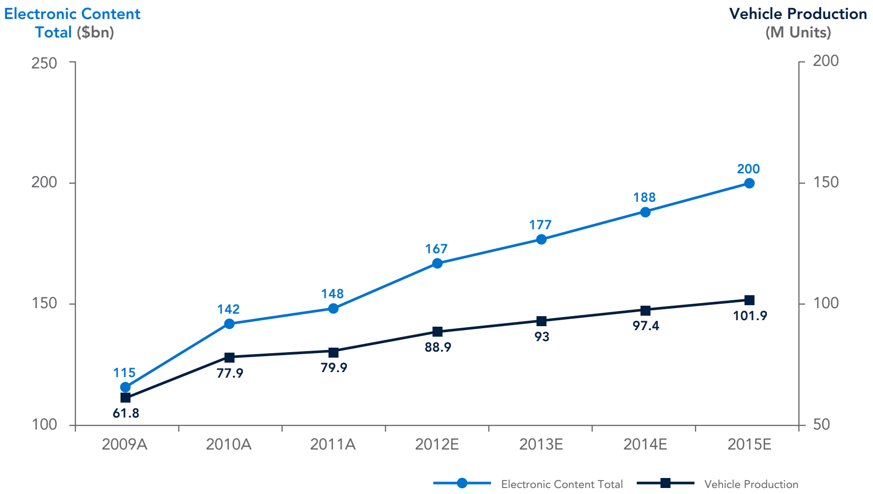
- computers (approximately 31%): PCs, net books, tablets;
- communications (approximately 27%): mobile phones (both smart and dumb) telecommunications infrastructure;
- consumer (approximately 10%): MP3 players, games consoles, digital cameras, flat screen TVs, camcorders;
- automotive (approximately 11%): chassis and safety systems, lighting, powertrain, infotainment, interior electronics, electric vehicles;
- industrial/medical (approximately 15%): photovoltaic, instrumentation, retail systems/self-service, automation and motion control, power generation/ transmission, traffic systems, medical diagnostics and imaging, patient monitoring; and
- military (approximately 8%).

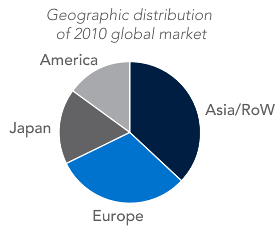
Alent's products are used in electronic devices in all of the categories above, with a particular focus on the tablet and smartphone markets within computers and communications and the automotive end-market.

According to Gartner in 2012, as shown in the chart above, growth in smartphone units is forecast to be approximately 24% CAGR from 2011 to 2016, with a doubling of smartphone units in the three years from 2011 to over 1 billion devices by 2014. Alent considers the majority of the leading mobile phone manufacturers as customers.

Similarly, the tablet market is forecast to grow by approximately 41% CAGR from 67m units in 2011 to 371m units in 2016. Much of the technology, form factor and manufacturing processes for tablets are similar to that typical of smartphones, an area of strength for Alent.

## AUTOMOTIVE ELECTRONICS CONTENT FORECAST




Source: Prismark

## AUTOMOTIVE INDUSTRY

As in the electronics end-market, volume is a key driver of demand for Alent's products in the industrial automotive segment. Automotive is a particularly OEM-driven segment where our OEM strategy positions us well. As shown in the chart above, vehicle volumes are expected to grow approximately 6% CAGR from 2012 to 2015. In addition, there is a strong trend for increased electronic content in vehicles and increasing demand for functional and decorative coatings, which benefits both of our divisions. This dynamic will enable Alent to benefit from a twofold increase, both of a growing underlying market, as well as an increase in product penetration.

The need for improved corrosion-resistant and wear-resistant coatings, driven by the need to provide longer warranty protection to customers, increases demand for our products. The improved quality of automobiles and need to reduce their weight is also driving higher demand for increasingly sophisticated decorative finishes, which both enhance customer perception of the vehicle and enable lower weight materials (e.g. plastics) to be used in their production.

A premium class automobile typically now contains between 70 and 100 microprocessor-based electronic control units (ECUs). According to Global Industry Analysts, in April 2012, electronics content as a percentage of the total vehicle cost is expected to rise significantly as market penetration of hybrid and electric vehicles increases. We supply products used in the manufacturing and assembling of these electronic devices, which are increasingly being used to control a wide range of systems, including chassis and safety systems, lighting, powertrain, infotainment, interior electronics and electric vehicles.

# Our Performance

## A resilient year with a strong platform for growth

For further information please visit **www.alent.com**

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# CEO Statement

"I believe strongly that the establishment of Alent as a stand-alone Company will benefit our shareholders, our customers, and our people."

**Steve Corbett,** Chief Executive

## OVERVIEW

I am very pleased to deliver my first report as Chief Executive of Alent plc, newly created following the demerger of Cookson Group plc in December 2012. I believe strongly that the establishment of Alent as a stand-alone company will benefit our shareholders, our customers and our people. The Alent Board and management are now singularly focused on the Alent business, and free to deploy its capital resources in the best interests of the newly formed Group. This is a cash generative business and we are now able, as a stand-alone Company, to deploy the cash generated to pay dividends, invest organically in capital development, complementary technologies and R&D, and to begin to consider value adding, bolt-on acquisitions. We look forward to demonstrating the strength of our business and the opportunities we have for profitable growth. I'd like to take this opportunity to thank each and every one of Alent's 2,600 people across the globe for a job well done in 2012 and for setting Alent on a strong foundation for further growth and profitability improvement in 2013 and beyond.

## ALENT

Alent is a leading supplier of advanced, consumable specialty chemicals and engineered materials used primarily in the electronics, automotive and industrial end-market segments. We offer our customers customised products that in many cases are specifically designed to solve an individual customer's production problem, or to enable a customer to build its next generation products at acceptable yields, throughput and reliability. Our ability to quickly develop solutions for our customer's problem can often result in Alent being the customer's preferred and trusted source of supply, differentiating us from our competitors. We deliver our products on a "just in time" basis from a global manufacturing base of 23 facilities located around the world. We have long-standing relationships with our customers and we have a deep understanding of their manufacturing processes and future material needs.

## KEY STRENGTHS AND CAPABILITIES

Alent is a market and technology leader across its targeted end-market segments. We are innovative with a clear focus on customer demands. Further sustainable revenue and margin growth will be driven by underlying industry megatrends in electronics, as well as in automotive, industrial and emerging applications such as LEDs and photovoltaics. We will also build on our already well-established footprint in key developing markets such as China, India and Brazil, together with our continued efforts to optimise our product mix toward higher margin products.

We differentiate ourselves from our competitors by our global "copy exact" manufacturing structure, our fast cycle R&D capabilities, and our OEM marketing and selling strategy.

## RESEARCH AND DEVELOPMENT (R&D)

One of our strategic goals is to excel in our targeted markets and to continue to grow our innovative new product pipeline with high-value adding, new market creating technologies. R&D is therefore critical to the continued success of Alent and we have invested significantly in our facilities around the world. We have substantial R&D sites in Bangalore, India, in the USA in New Jersey and Connecticut, in Langenfeld, Germany and also in Hiratsuka, Japan. We also have smaller R&D sites in the UK and the Netherlands. In total we have over 170 R&D scientists and engineers with more than one third of these located in Bangalore. Our R&D spend in 2012 was c4% of NSV. Our R&D focus is on the growth areas in which we are investing; we spend very little on mature, but cash generative products such as solder bar and wire. Excluding these, R&D spend is c5% of NSV. Instead, we divert significantly more resources to the development of our higher margin products such as damascene copper, nano silver die attach materials, and our next generation solder pastes.

Global R&D resources are allocated into three key categories:

- approximately 70% is allocated to specific customer-driven, new product evolution and development activities. The focus here is to ensure that we continue to gain share in our current markets by a continued stream of differentiated, innovative products and by working very closely with our customers;
- an additional 20% is allocated, through new business development, to expanding and extending our products and services into new but adjacent high growth or emerging markets; and
- the remaining 10% is allocated to exploring, selecting and nurturing emerging/breakthrough/disruptive technologies that will help to sustain our innovation pipeline for many years to come.

A full definition of non-GAAP measures is outlined on page 87

## NEW PRODUCTS AND MARKETS

Alent supplies a broad range of products across the electronics, automotive and industrial end-markets. A significant portion of our R&D spend and deployment of resources is focused on incremental improvements to existing product platforms, which enable customers to improve their own manufacturing yields and productivity, and enhance both the performance and reliability of their products. It is these incremental improvements that enable our customers to deliver their next generation products, cementing our relationship with them. We also have an exciting pipeline of new products that we are launching. Some of these are into new markets such as LED lighting and solar/photovoltaics, and we continue to identify new or emerging markets into which our technologies and chemistries can be applied. Some are significant enhancements, such as our ultra-high performance damascene copper for enabling next generation technology nodes, new moulded interconnect devices for smartphone antennae, as well as new 3D packaging plating chemistries for 3D interconnects, and new semi-conductor die attach products for the power electronics end market. While these new products had a relatively small impact on our results in 2012, we expect these to develop into significant revenue streams over the coming years.

## OEM SALES STRATEGY

One key operational strategy is our value-add OEM marketing and selling initiative. We show the OEMs the value our products can bring to them. We are able to quantify for them, in monetary terms, how much they will save if they specify the use of our products to their subcontractors, even though our products may cost more. We show customers the financial benefits of increased production yields, increased productivity and increased reliability, which we can actually demonstrate. In our R&D centres in Bangalore and the USA we have production scale surface mount assembly lines, which are the same scale assembly lines that our customers use. In a single day we can assemble more than 1,000 circuit boards. We can place as many as 500 components on each board. Each of these components has multiple solder joints, such that on a single day we can literally generate millions of individual interconnect data points. From these data points, we can generate accurate yield and productivity data which is made available to our customers. We then take these boards and mechanically and environmentally stress them in such a way as to be meaningful to the specific OEM's end application. This reliability data, along with the assembly yield and productivity data, are the backbone of our value selling initiative. In summary, this is much more than a sales pitch, it is a compelling value proposition that we have seen deliver real tangible results for our customers. Alent backs all of this up with its global manufacturing footprint, experienced technical service engineers, and "copy exact" manufacturing protocols. Large multinational OEMs want assurance that their supply chain can deliver exactly the same materials wherever in the world they choose to have their products manufactured.

## MANAGEMENT DEVELOPMENT

The core Alent management team is a highly experienced group of executives, with whom I have worked for many years as we grew and developed the business to the point at which it could have its own listing. This group has extensive international experience across all of our operations, our markets, and the industries and customers whom we serve. I believe that the management team is well-positioned to lead Alent to a successful future as a stand-alone, high-growth company. In addition, I am pleased to welcome David Egan to the Alent management team as Finance Director. I know that David will bring a new perspective to Alent and that his contributions will have a positive impact on our future performance.

## TRADING PERFORMANCE

Alent delivered a solid set of results for the year despite challenging economic conditions during 2012. Whilst NSV was broadly flat, both as a result of mix effects and as a result of weaker electronics and European automotive and industrial end-market demand, adjusted operating profit at constant currency increased 3.4% to £97.2m and adjusted EPS increased 2.1% to 24.6 pence per share. Adjusted cash generated from operations was £86.0m (2011: £93.0m) and represented a cash conversion of 88% of adjusted operating profit.

## OUTLOOK

Our major global electronics end-markets are expected to return to positive year on year growth, with more limited growth in global printed circuit board surface area production. This improving market development is likely to be tempered by the continuing macroeconomic headwinds across the Eurozone, especially in the automotive industry. Alent's strong positions across its selected leading electronics applications and with its end-customers place us in a good position to grow NSV and to further improve returns. We have begun the year on track and look forward to making further progress over the course of the year, with our normal seasonal improvement in the second half.

**Steve Corbett**
Chief Executive
28 March 2013

# Business Unit Review

## ASSEMBLY MATERIALS

| | At reported rates 2012 £m | 2011 £m | Change at Reported | Constant |
|---|---|---|---|---|
| NSV | **208.0** | 214.1 | (2.8%) | 2.3% |
| Adjusted operating profit | **58.7** | 53.7 | 9.3% | 9.9% |
| NSV margin | **28.2%** | 25.1% | 3.1ppts | 2.0ppts |

Assembly Materials' adjusted operating profit increased by £5.0m (9.3%) to £58.7m (2011: £53.7m). On a constant currency basis the increase was 9.9%. The NSV margin increased 3.1ppts to 28.2% (2011: 25.1%). The increase in profit and margin was driven by a number of factors. These included higher sales of our higher margin surface mount technology products, higher margin sales in Asia more than offsetting a small decline in Europe, operational gearing on the increased sales overall, and the effects of our continual operational and Six Sigma improvement programmes and the continued product mix shift away from low margin, more commoditised products to higher margin products.

## NSV

| | At reported rates 2012 £m | 2011 £m | Change at Reported | Constant |
|---|---|---|---|---|
| Wave solder assembly | **57.2** | 62.8 | (8.9%) | 2.7% |
| Surface mount assembly | **94.8** | 91.3 | 3.8% | 8.0% |
| Microelectronics | **11.8** | 12.3 | (4.1%) | (5.6%) |
| Other | **44.2** | 47.7 | (7.3%) | (6.6%) |
| Total Assembly Materials | **208.0** | 214.1 | (2.8%) | 2.3% |

Electronics end-markets remained relatively weak in 2012. According to Henderson Ventures, a leading industry commentator, worldwide production of electronics equipment (on a revenue basis at constant 2011 exchange rates) declined by 1.2% versus 2011. The bright spots that drove Assembly Materials' growth were smartphones and tablet computers. Global smartphone year-on-year unit growth was 37% (Prismark) with global production of some 650 million units. Global 2012 tablet computer volumes were 125 million units, an increase of 95% compared with 2011. Assembly Materials' NSV in the Surface mount assembly product line segment, which includes solder paste, increased 3.8% year on year (+8% at constant currency). Other high unit volume electronics system segments such as standard mobile phones, desk top and laptop PCs, LCD TVs, set top boxes and digital cameras all experienced no, or negative unit growth in 2012 versus 2011. Automotive electronic systems grew globally by 3.7% on a revenue basis (Prismark) with increases in North America and Asia offsetting declines in Europe.

For Assembly Materials, we segment our solder product lines between bar solder — used in the more mature wave soldering technology for assembling printed circuit boards and which comprises "Wave solder assembly" in the table above; and products such as the high performance solder paste, wire and preforms that are used as the joining medium in the more modern surface mount technology for circuit board manufacture, shown as "Surface mount assembly" in the table. In wave solder assembly, NSV increased 2.7% at constant currency. We saw, as expected, a continuing shift away from the older printed circuit board assembly process to the newer Surface mount assembly process, and this is reflected in the table above. Although overall global bar solder volumes declined 12% as compared to 2011, we were still able to achieve revenue growth, in constant currency, in this segment as a result of continued mix shift toward low silver content alloys and the on-going shift from lead-bearing solders to lead-free alloys.

Surface mount assembly products saw an increase in NSV of 8% at constant currency. We shipped a significantly higher volume of lead-free solder paste, being driven by demand from the smartphone, tablet and laptop computer segments from OEMs, as a result of our ongoing OEM marketing and selling strategy. In 2012, c30% of our global solder paste volume was shipped into the supply chain of three market-leading OEMs in the smartphone, tablet and laptop computer market segments based on specific product specification by the OEMs.

"Microelectronics" includes a range of non-solder products that are sold into the electronics, LED and photovoltaic markets, including electronic polymers, spheres, and die attach materials. NSV declined 5.6% at constant currency due to lower solder sphere volumes.

The "Other" category includes our recycling and reclaim operations, our consumer products and water treatment chemicals businesses. NSV declined in these areas 6.6% at constant currency, primarily due to lower sales of commodity products in our Fernox water treatment chemicals business. The resulting mix shift away from commodities improved the quality of earnings in this product line segment.

A full definition of non-GAAP measures is outlined on page 87

## SURFACE CHEMISTRIES

Surface Chemistries serves the electronics and the automotive/industrial end-markets, with NSV split approximately equally between these two market segments.

| | At reported rates | | Change at | |
|---|---|---|---|---|
| | 2012 £m | 2011 £m | Reported | Constant |
| NSV | **208.7** | 219.2 | (4.8%) | (2.7%) |
| Adjusted operating profit | **46.0** | 48.2 | (4.6%) | (4.4%) |
| NSV margin | **22.0%** | 22.0% | — | (0.4)pts |

Surface Chemistries' adjusted operating profit decreased by £2.2m (4.6%) to £46.0m (2011: £48.2m). On a constant currency basis the decrease was 4.4%, resulting in the NSV margin being flat year on year, at 22.0%. The major factor in this decline was the weaker demand in Europe (which accounted for 41% of divisional sales) in both automotive and electronics, together with the global decline in printed circuit board production volumes.

### NSV

| | At reported rates | | Change at | |
|---|---|---|---|---|
| | 2012 £m | 2011 £m | Reported | Constant |
| Performance coatings | **96.6** | 99.2 | (2.6%) | 1.7% |
| Electronics | **100.8** | 105.3 | (4.3%) | (4.4%) |
| Other | **11.3** | 14.7 | (23.1%) | (20.4%) |
| Total Surface Chemistries | **208.7** | 219.2 | (4.8%) | (2.7%) |

"Performance coatings" are specialty electroplating chemicals sold into non-electronics end-markets which are used to provide either corrosion protection, or wear protection, or to provide a high quality decorative finish to either metal or plastic substrates. In the automotive and industrial end-markets, the severe market headwinds in Europe resulted in significantly reduced volume demand from customers in that region. Western Europe experienced a 10% unit volume decline (source: LMC Automotive) in light vehicle production in 2012 with manufacturers in Southern Europe hit particularly hard. However, stronger demand in the North American and Asian automotive markets more than compensated for the decline in Europe and, as a result, Surface Chemistries' Performance coatings NSV was up 1.7% versus the prior year (on a constant currency basis).

Products sold into "electronics" end-markets include copper damascene, providing the copper "wiring" in the leading edge semiconductor applications such as microprocessors, logic and ASICs, wafer bumping chemistries for the semiconductor market, and printed circuit fabrication chemicals and interconnect materials serving a broad range of electronics applications. The overall worldwide circuit board market contracted by some 6% (Prismark) in 2012 as measured in millions of square metres of circuit boards produced. As a result, our printed circuit board chemistry volumes sold into this market were down 5.7%. The global semiconductor market, in terms of silicon area (excluding solar) saw a decline in 2012 of 1.1% (Henderson). Our damascene copper business was, in total, generally flat in comparison to the prior year as some customers struggled to ramp the new, higher specification 28nm technology node and this delayed expected qualifications. However, even within our damascene copper product line, we experienced a mix shift in 2012 away from the more commoditised electrolyte business toward the higher margin additives. Damascene copper additives increased 9% year on year.

The smaller product group, "Other" includes equipment sales — where we sell electroplating equipment to our customers typically alongside a multi-year contract for us to provide the associated electroplating chemicals, and small amounts of non-proprietary products sourced from third parties and resold to customers. NSV decreased £2.9m on a constant currency basis due to a reduction in equipment sales and sales of commodities.

Our new, world class manufacturing and technical centre under construction in Shanghai is progressing well with hand-over expected at the end of the first half of 2013.

# Financial Review

"I am pleased to be reporting on a resilient set of results for 2012."

David Egan, Group Finance Director

## OVERVIEW

I am pleased to be reporting on a resilient set of results for 2012 despite challenging economic environments. Whilst Net Sales Value (NSV) on a constant currency basis was broadly flat year on year at £416.7m, both as a result of mix effects and as a result of weaker electronics and European automotive and industrial end-market demand, adjusted operating profit on a reported basis increased 3% to £97.2m (2011: £94.4m) and adjusted Earnings Per Share (EPS) increased 2.1% to 24.6p (2011: 24.1p). Adjusted cash generated from operations was £86.0m (2011: £93.0m) and represented a cash conversion of 88% of adjusted operating profit.

### Adjusted financial information for 2011 and 2012

Prior to demerger, the Alent businesses formed the Performance Materials Division of Cookson Group plc. The fundamental structure of Alent's businesses has not changed as a result of the demerger and consequently the demerger has had little impact on Alent's operational activities and results. The principal impact of the demerger on Alent's results has been from the overlay of a stand-alone corporate structure and the effect that this has had on the financing and tax arrangements of Alent as well as all KPIs calculated by reference to these items.

*Proforma adjustments:* In order to provide clearer financial information and performance metrics of Alent, we have made proforma financial adjustments to show what the results of Alent for 2012 and 2011 would have looked like if Alent had been a stand-alone Group for the whole of that period. These results will provide a benchmark against which future results can be most appropriately compared. In order to apply proforma adjustments, certain assumptions are required to be made and these are discussed in the balance of this report.

*Other adjustments:* In addition to the proforma adjustments, the Board believes that additional adjustments should be made in respect of exceptional items and demerger costs, to arrive at adjusted profit before tax and adjusted EPS. We believe that this provides a better basis for understanding Alent's financial performance and in making projections of future financial performance.

The remainder of this Financial Review will make reference to "adjusted results" which incorporate the combined effect of proforma adjustments and the exclusion of exceptional items and demerger costs as noted above, unless as otherwise stated. The adjustments are illustrated in the table below:

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Statutory results £m** | **Proforma adjustments £m** | **Exceptional items adjustments £m** | **Adjusted results £m** | Statutory results £m | Proforma adjustments £m | Exceptional items adjustments £m | Adjusted results £m |
| Revenue | **713.9** | **—** | **—** | **713.9** | 814.4 | — | — | 814.4 |
| Operating profit before JVs and exceptionals | **103.0** | **(5.8)** | **—** | **97.2** | 99.6 | (5.2) | — | 94.4 |
| Share of post tax profit of joint ventures | **0.3** | **—** | **—** | **0.3** | 1.2 | — | — | 1.2 |
| Exceptional items | **(15.8)** | **—** | **15.8** | **—** | (3.5) | — | 3.5 | — |
| Operating profit | **87.5** | **(5.8)** | **15.8** | **97.5** | 97.3 | (5.2) | 3.5 | 95.6 |
| Demerger costs | **(10.7)** | **—** | **10.7** | **—** | — | — | — | — |
| Net finance costs | **(3.6)** | **(4.9)** | **—** | **(8.5)** | (2.9) | (5.6) | — | (8.5) |
| Profit before tax | **73.2** | **(10.7)** | **26.5** | **89.0** | 94.4 | (10.8) | 3.5 | 87.1 |
| Income tax costs — ordinary activities | **(23.3)** | **2.5** | **—** | **(20.8)** | (16.8) | (3.3) | — | (20.1) |
| — exceptional items | **(4.9)** | **—** | **4.9** | **—** | (3.2) | — | 3.2 | — |
| Profit for the year | **45.0** | **(8.2)** | **31.4** | **68.2** | 74.4 | (14.1) | 6.7 | 67.0 |

A full definition of non-GAAP measures is outlined on page 87

## GROUP RESULTS HIGHLIGHTS

A summary of the Group's results is set out below. Further detail on the performance of each Division is included on pages 16 to 17.

| | At reported rates | | Change at | |
|---|---|---|---|---|
| | **2012 £m** | 2011 £m | Reported | Constant |
| Revenue | **713.9** | 814.4 | (12.3%) | (11.1%) |
| NSV | **416.7** | 433.3 | (3.8%) | (0.3%) |
| Adjusted operating profit | **97.2** | 94.4 | 3.0% | 3.4% |
| NSV margin | **23.3%** | 21.8% | 1.5ptts | 0.8ptts |
| Adjusted profit before tax | **89.0** | 87.1 | 2.2% | 2.5% |
| Adjusted profit for the year | **68.2** | 67.0 | 1.8% | 2.1% |
| Adjusted earnings per share (pence) | **24.6** | 24.1 | 2.1% | 2.1% |
| Net debt/(cash) | **144.4** | (51.5) | | |
| Dividends per share (pence) | **5.5** | — | | |
| Adjusted cash generated from operations | **86.0** | 93.0 | | |
| Return on investment (%) | **13.0%** | 13.0% | | |

## NSV

| | At reported rates | | Change at | |
|---|---|---|---|---|
| | **2012 £m** | 2011 £m | Reported | Constant |
| Assembly Materials | **208.0** | 214.1 | (2.8%) | 2.3% |
| Surface Chemistries | **208.7** | 219.2 | (4.8%) | (2.7%) |
| Alent Group | **416.7** | 433.3 | (3.8%) | (0.3%) |

Group NSV decreased by £16.6m (3.8%) to £416.7m (2011: £433.3m). On a constant currency basis the decline for the Group was 0.3%.

Assembly Materials NSV decreased by £6.1m (2.8%) to £208.0m (2011: £214.1m), although on a constant currency basis it increased by 2.3%. Despite lower volumes, the mix shift toward low silver content alloys and the ongoing shift from lead bearing solders to lead-free alloys in the Wave solder assembly sub-segment improved NSV. Surface mount assembly products saw an increase in NSV of 8% at constant currency. We shipped a significantly higher volume of lead-free solder paste, being driven by demand from the smartphones, tablets and laptop computer segments from OEMs. Additional details on the NSV sub segments can be found on pages 16 to 17.

Surface Chemistries NSV decreased by £10.5m (4.8%) to £208.7m (2011: £219.2m). On a constant currency basis the decline was 2.7%. Stronger demand in the Americas and Asia automotive markets more than offset weaker demand in the automotive and industrial end-markets in Europe leading to a performance coatings sub segment NSV improvement of 1.7% versus the prior year, on a constant currency basis. NSV in the electronics chemistries sub segment declined 4.4% primarily due to lower global printed circuit board and semiconductor production. Additional details on the NSV sub segments can be found on pages 16 to 17.

# Financial Review continued

## SEGMENTAL ANALYSIS

| | At reported rates | | Change at | |
|---|---|---|---|---|
| | **2012 £m** | 2011 £m | Reported | Constant |
| **Adjusted Operating Profit** | | | | |
| Assembly Materials | **58.7** | 53.7 | 9.3% | 9.9% |
| Surface Chemistries | **46.0** | 48.2 | (4.6%) | (4.4%) |
| Corporate | **(7.5)** | (7.5) | — | — |
| Alent Group | **97.2** | 94.4 | 3.0% | 3.4% |
| **NSV margin** | | | | |
| Assembly Materials | **28.2%** | 25.1% | 3.1ppts | 2.0ppts |
| Surface Chemistries | **22.0%** | 22.0% | — | (0.4)ppts |
| Alent Group | **23.3%** | 21.8% | 1.5ppts | 0.8ppts |

Assembly Materials adjusted operating profit increased by £5.0m (9.3%) to £58.7m (2011: £53.7m). On a constant currency basis the increase was 9.9%. The NSV margin increased 3.1ppts to 28.2% (2011: 25.1%), whilst on a constant currency basis the NSV margin increase was 2.0ppts. The increase in profit and margin was driven by a number of factors. These included increased sales of our higher margin surface mount technology products, higher NSV in Asia more than offsetting a small decline in Europe, operational gearing on the increased sales overall, and the effects of our continual operational improvement programmes.

Surface Chemistries adjusted operating profit decreased by £2.2m (4.6%) to £46.0m (2011: £48.2m). On a constant currency basis the decrease was 4.4%. The NSV margin was flat year on year at 22%. Weaker volumes, primarily in Europe automotive and industrial segments, offset gains in other geographic markets.

Central costs of £7.5m represent estimated annual costs associated with becoming a separate stand-alone Group. Accordingly these costs have been presented on a proforma basis in the segmental analysis and assumed to be the same amount in both 2012 and 2011.

Group adjusted operating profit increased by £2.8m (3%) to £97.2m (2011: £94.4m). On a constant currency basis the increase was 3.4%. Group NSV margin increased 1.5ppts to 23.3% (2011: 21.8%) whilst on a constant currency basis, the increase was 0.8ppts.

### EXCEPTIONAL ITEMS

Total exceptional costs for the Group were £15.8m (2011: £3.5m), made up of restructuring charges, disposal and closure costs, one-off loss on an equipment construction contract and, in 2011, £2.0m of gains relating to employee benefit plans.

The restructuring charge for the year was £3.5m (2011: £1.9m), principally arising in connection with initiatives that included redundancy programmes, the downsizing or closure of facilities, the streamlining of manufacturing processes and the rationalisation of product lines.

The disposal and closure costs of £5.7m (2011: £3.6m) arose in relation to costs incurred in connection with the demolition and clean-up of sites of former Group businesses that have either been closed or disposed of. Cash costs of £1.9m (2011: £1.8m) were incurred, leaving provisions made but unspent of £15.4m.

The one-off loss on an equipment construction project of £6.6m (2011: £nil) relates to the additional costs incurred, or to be incurred by Alent, for the installation and financing of a chemical treatment line following insolvency of the third party subcontractor.

### DEMERGER COSTS

Costs of £10.7m, incurred as a result of the demerger of the Alent group of businesses from Cookson Group plc and principally relating to professional fees for audit, accounting, pensions, legal and regulatory compliance services.

### NET FINANCE COSTS

Proforma adjustments have been made to reflect Alent's post demerger banking arrangements and debt levels. Based upon the level of net debt at 31 December 2012 and the interest payable on the gross borrowings drawn under the new bank facility, the Group's net borrowing-related proforma finance costs are £7.6m per annum. After including pension-related interest and interest from the unwinding of discounted provisions, the Group's total net adjusted finance costs in 2012 and 2011 are £8.5m per annum.

### ADJUSTED PROFIT BEFORE TAX

Adjusted profit before tax increased 2.2% to £89.0m (2011: £87.1m) whilst on a constant currency basis, the increase was 2.5%.

### TAX CHARGE

Proforma adjustments have been made to reflect Alent's post-demerger structure and performance. As a result the proforma tax charge on ordinary activities was £20.8m (2011: £20.1m) on adjusted profit before tax of £89.0m (2011: £87.1m), an effective tax rate (before share of post-tax profit from joint ventures) of 23.4% (2011: 23.4%). As at 31 December 2012, there are approximately US$248m of gross US tax losses available to Alent. The tax charge on exceptional items was £4.9m (2011: £3.2m).

## ADJUSTED PROFIT FOR THE YEAR

Adjusted profit for the year increased by 1.8% to £68.2m (2011: £67.0m).

## ADJUSTED EARNINGS PER SHARE

Adjusted earnings per share increased by 2.1% to 24.6 pence per share (2011: 24.1 pence per share). The weighted average number of shares was 277.5m (2011: 277.5m).

## DIVIDENDS

The Board is proposing a final dividend for 2012 of 5.5 pence per share. This is aligned to previous guidance. On a proforma basis, assuming the Cookson Group interim dividend was split in the same proportion as the final dividend, this amounts to a full year dividend of 8.25 pence per share or equivalent to 3 times dividend cover from adjusted EPS for Alent.

The final dividend, if approved at the Annual General Meeting on 21 May 2013, is to be paid on 13 June 2013 to shareholders on the register on 10 May 2013. Any shareholder wishing to participate in the Alent Dividend Reinvestment Plan ("DRIP") needs to have submitted their election to do so by 22 May 2013.

## RESEARCH AND DEVELOPMENT (R&D)

R&D is critical to the continued success of Alent to meet the demand for leading-edge products for smaller, lighter and faster electronics and to take advantage of the opportunities presented by new and fast-growing markets, such as LED, power semi-conductor electronics and photovoltaics. In addition, tightening environmental regulations mean that improvements to existing products are required in order to ensure continued compliance.

Alent believes its facility in Bangalore enables it to maintain its leading position and run-rate of new products at an attractive cost.

Alent invests significant amounts in R&D and endeavours to sustain its competitive advantage. In 2012, total R&D spend was £16.5m, (2011: £16.0m) equivalent to 4.0% (2011: 3.7%), of NSV. Of this expenditure, £8.1m (2011: £7.9m) or 3.9% (2011: 3.7%) of NSV was in the Assembly Materials business whilst £8.4m (2011: £8.1m) or 4.0% (2011: 3.7%) of NSV was in the Surface Chemistries business. All R&D costs have been expensed through the Group income statement.

## CAPITAL STRUCTURE

The Group's Consolidated Balance Sheet at 31 December 2012 is summarised as follows:

| | 2012 Assets £m | 2012 Liabilities £m | 2012 Net assets £m | 2011 Assets £m | 2011 Liabilities £m | 2011 Net assets £m |
|---|---|---|---|---|---|---|
| Property, plant and equipment | **83.9** | **—** | **83.9** | 75.8 | — | 75.8 |
| Intangible assets | **295.0** | **—** | **295.0** | 298.8 | — | 298.8 |
| Investments in joint ventures | **12.6** | **—** | **12.6** | 15.7 | — | 15.7 |
| Other non-current assets and liabilities | **15.7** | **(46.6)** | **(30.9)** | 17.7 | (53.2) | (35.5) |
| Current assets and liabilities | **193.9** | **(109.8)** | **84.1** | 198.4 | (123.6) | 74.8 |
| Employee benefits | **—** | **(24.3)** | **(24.3)** | — | (26.4) | (26.4) |
| Capital employed | **601.1** | **(180.7)** | **420.4** | 606.4 | (203.2) | 403.2 |
| Net cash/(debt) | **81.5** | **(225.9)** | **(144.4)** | 75.9 | (24.4) | 51.5 |
| Total at 31 December 2012 | **682.6** | **(406.6)** | **276.0** | 682.3 | (227.6) | 454.7 |

Whilst the Group's capital employed has remained reasonably constant year-on-year, increasing by 4% to £420.4m as at 31 December 2012 (2011: £403.2m), as a result of the demerger there has been a marked change in the funding mix between equity and debt. For more detail see note 26.3 to the Group financial statements.

# Financial Review continued

## CASH FLOW

| | 2012 £m | 2011 £m |
|---|---|---|
| **EBITDA** | **111.9** | 108.1 |
| Net increase in trade and other working capital | **(20.0)** | (9.6) |
| Outflow related to restructuring charges | **(3.8)** | (3.8) |
| Additional funding contributions into Group pension plans | **(2.1)** | (1.7) |
| **Adjusted cash generated from operations** | **86.0** | 93.0 |
| Net Interest paid | **(2.6)** | (1.0) |
| Income taxes paid | **(22.1)** | (15.1) |
| **Adjusted net cash inflow from operating activities** | **61.3** | 76.9 |
| Capital expenditure — operating | **(16.4)** | (16.1) |
| Add back additional funding contributions to Group pension plans | **2.1** | 1.7 |
| Proceeds from sale of property, plant and equipment and dividend from JV | **2.1** | 1.2 |
| **Adjusted free cash flow** | **49.1** | 63.7 |
| | | |
| Payment of demerger costs | **(5.7)** | — |
| Outflow in relation to purchase of Woking site (restructuring £16.0m; capex £5.5m) | **(21.5)** | — |

EBITDA for 2012 was £111.9m (2011: £108.1m). Working capital outflow in 2012 of £20.0m (2011: £9.6m) was primarily due to a reduction in factoring and supplier financing. Working capital as a percentage of sales was 17.7% (2011: 16.9%).

Restructuring cash costs of £3.8m (2011: £3.8m) were incurred in the year in respect of restructuring initiatives leaving provisions made but unspent of £5.4m (2011: £3.2m).

Adjusted cash generated from operations was £86.0m (2011: £93.0m) and represented a cash conversion of 88% of adjusted operating profit.

Operational capital expenditure in 2012 was £16.4m (2011: £16.1m). This represents 184% (2011: 189%) of depreciation.

Whilst the Group's manufacturing operations are relatively capital light, more recently the building of a major facility in Shanghai, the upgrading of a number of manufacturing facilities, and the upgrading of our R&D sites with the latest equipment have combined to increase the level of capital expenditure in 2012. We expect completion of the Shanghai facility in mid-2013, and completion of a new facility in Chennai, India by the end of 2013.

Adjusted cash flow for the year was £49.1m (2011: £63.7m).

Demerger cash costs of £5.7m (2011: £nil) were incurred in the year leaving provisions made but unspent of £5.0m (2011: £nil), at the end of the year.

Outflow in relation to the purchase of the Woking site of £21.5m (2011:£nil) relates to the purchase of a property in Woking, UK which was previously occupied on a leasehold basis and over which an onerous lease reserve had been established in 2009. The 2012 cash outflow includes £5.5m relating to the purchase of the land and buildings and £16.0m relating to restructuring.

## DEBT FACILITY AGREEMENT

Alent signed a £300m, five year, multicurrency, revolving credit facility dated 21 September 2012. Loans made under the facility will bear interest at a floating rate per annum based on the London interbank offer rate (LIBOR) as applicable plus a margin ranging from 1.25% per annum to 2.25% per annum depending on the ratio of consolidated net borrowings to proforma EBITDA. £2.9m of fees associated with establishing the new facility have been capitalised against borrowings.

## NET DEBT

Net debt at 31 December 2012 was £144.4m. Gross borrowings were £225.9m whilst cash on hand was £81.5m. The cash on hand balances were slightly higher than normal due primarily to the timing of the demerger. At 31 December 2012, 100% of the Group's borrowings were denominated in pounds sterling. Post-balance sheet, the Group's gross borrowings have been redenominated into US Dollars (38%), Euros (15%) and pounds sterling (47%).

Financial covenants applicable to the facility include adjusted EBITDA to net interest (minimum 4.0 times) and net debt to adjusted EBITDA (maximum 3.0 times). As at 31 December 2012, Alent was operating well within these covenants as the ratio of EBITDA to net interest cover was 15 times and the ratio of net debt to EBITDA was 1.3 times.

## PENSIONS AND OTHER POST-RETIREMENT OBLIGATIONS

| | 2012 US £m | 2012 ROW £m | 2012 Total £m | 2011 US £m | 2011 ROW £m | 2011 Total £m |
|---|---|---|---|---|---|---|
| Fair value of plan assets | **39.1** | **2.0** | **41.1** | 42.8 | 2.2 | 45.0 |
| Funded defined benefit obligations | **(51.7)** | **(3.8)** | **(55.5)** | (58.9) | (4.4) | (63.3) |
| Status of funded plans | **(12.6)** | **(1.8)** | **(14.4)** | (16.1) | (2.2) | (18.3) |
| Unfunded plans | **(5.7)** | **(4.2)** | **(9.9)** | (4.4) | (3.7) | (8.1) |
| Total net liabilities | **(18.3)** | **(6.0)** | **(24.3)** | (20.5) | (5.9) | (26.4) |

The Group operates defined contribution and defined benefits pension plans, principally in the US and Germany. The Group's largest defined benefit plan in the US is closed to new members and to further accruals for existing members. As shown in the table above, as at 31 December 2012, the net deficit in Alent's post-retirement defined benefit plans was £24.3m (2011: £26.4m) with assets of £41.1m (2011: £45.0m) and liabilities of £65.4m (2011: £71.4m).

With effect from 1 January 2013, Alent will adopt IAS 19, *Employee Benefits (revised 2011)*. Adoption of this new standard is not expected to have a material impact on the Group's results or financial position.

## GOING CONCERN BASIS

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, they have adopted the going concern basis in preparing the financial statements for the year ended 31 December 2012.

## SIGNIFICANT ACCOUNTING POLICIES

Following the demerger, these are the first financial statements that have been prepared for Alent plc and IFRS1, First-time Adoption of International Financial Reporting Standards, has been applied as detailed in note 2.4 to the Group financial statements. The financial statements have been prepared in accordance with IFRS as adopted by the EU and the accounting policies set out in the notes to the consolidated financial statements. Applying accounting policies requires the use of certain judgements, assumptions and estimates. The following accounting policies have been identified as being the most significant and where there is most risk of material adjustment to the carrying value of Group's assets and liabilities within the next financial year:

- Goodwill
- Employee benefits
- Liability reserves
- Taxation

See note 3 to the Group financial statements for more detail.

## RELATED PARTY TRANSACTIONS

Transactions between Alent plc and Vesuvius plc have been treated as related party up until the date of the demerger, 19 December 2012. The details of these transactions have been included in note 36 on page 120.

## CURRENCY IMPACT ON TRADING

The Group reports its results in pounds sterling but conducts its business in multiple foreign currencies. The revenue mix in its major currencies in 2012 was as follows:

| | 2012 | 2011 |
|---|---|---|
| US Dollars | **25%** | 26% |
| Chinese Renminbi | **20%** | 21% |
| Euros | **19%** | 19% |
| Taiwanese Dollars | **10%** | 11% |
| Brazilian Reals | **5%** | 5% |

Based on the 2012 mix of non-pound sterling denominated revenue and adjusted operating profit, a 1% movement in US Dollars (relative to pounds sterling) changes revenue by £1.7m and adjusted operating profit by £0.3m, a 1% movement in Chinese Renminbi (relative to pounds sterling) changes revenue by £1.4m and adjusted operating profit by £0.4m and a 1% movement in Euros (relative to pounds sterling) changes revenue by £1.3m and adjusted operating profit by £0.1m.

The Group has a policy of broadly matching the currency of borrowings to the currency of its operating activities for its major trading currencies. Immediately following demerger, 100% of the Group's gross borrowings were denominated in pounds sterling. However, post the balance sheet date, just over 50% of the Group's gross borrowings were redenominated into non-sterling currencies: principally US Dollars and Euros.

# Financial Review continued

## STATUTORY INFORMATION

Whilst the previous sections of this Financial Review have focused on the adjusted results for the Group, this section comments on the statutory results as presented in the Group financial statements.

### Income Statement

| | 2012 Statutory £m | 2011 Statutory £m |
|---|---|---|
| Revenue | **713.9** | 814.4 |
| Operating profit before JVs and exceptionals | **103.0** | 99.6 |
| Share of post-tax profit of joint ventures | **0.3** | 1.2 |
| Exceptional items | **(15.8)** | (3.5) |
| Operating profit | **87.5** | 97.3 |
| Demerger costs | **(10.7)** | — |
| Net finance costs | **(3.6)** | (2.9) |
| Profit before tax | **73.2** | 94.4 |
| Income tax costs — ordinary activities | **(23.3)** | (16.8) |
| — exceptional items | **(4.9)** | (3.2) |
| Profit for the year | **45.0** | 74.4 |

## REVENUE

| | At reported rates | | Change at | |
|---|---|---|---|---|
| | 2012 £m | 2011 £m | Reported | Constant |
| Assembly Materials | **438.7** | 527.3 | (16.8%) | (15.7%) |
| Surface Chemistries | **275.2** | 287.1 | (4.1%) | (2.5%) |
| Alent Group | **713.9** | 814.4 | (12.3%) | (11.1%) |

Group revenue decreased by £100.5m (12.3%) to £713.9m (2011: £814.4m). On a constant currency basis the decline was 11.1%. The revenue decrease is impacted by the "pass through" to customers of lower tin and silver prices, both major raw materials for Assembly Materials, and lower gold consumption in the Surface Chemistries business. For the full year 2012, the average prices of tin and silver were, respectively, 19% and 11% lower than the same period in the prior year, such that approximately £41m of the Group's revenue decrease was as a result of these lower metal prices. The balance of the revenue reduction was due to declining global demand for lower margin, more commoditised products (particularly bar solder, non-proprietary chemicals) and lower gold consumption partially offset by the continued market penetration of innovative, higher margin, products such as advanced solder pastes, damascene copper, "tape and reel" packaged solder preforms and proprietary chemicals.

### Operating profit before JVs and exceptional items

| | Reported | | Change at | |
|---|---|---|---|---|
| | 2012 £m | 2011 £m | Reported | Constant |
| Assembly Materials | **57.5** | 52.1 | 10.4% | 7.7% |
| Surface Chemistries | **45.2** | 47.5 | (4.8%) | (6.0%) |
| Corporate | **0.3** | — | — | — |
| Alent Group | **103.0** | 99.6 | 3.4% | 1.5% |
| NSV margin | | | | |
| Assembly Materials | **27.6%** | 24.3% | 3.3ppts | 1.3ppts |
| Surface Chemistries | **21.7%** | 21.7% | — | (0.8)ppts |
| Alent Group | **24.7%** | 23.0% | 1.7ppts | 0.4ppts |

Assembly Materials operating profit increased by £5.4m (10.4%) to £57.5m (2011: £52.1m). On a constant currency basis the increase was 7.7%. The NSV margin increased 3.3ppts to 27.6% (2011: 24.3%) primarily as a result of solid demand and margin for the surface mount solder paste. On a constant currency basis the NSV margin increase was 1.3ppts.

Surface Chemistries operating profit decreased by £2.3m (4.8%) to £45.2m (2011: £47.5m). On a constant currency basis the decrease was 6.0%. The NSV margin was flat year on year at 21.7%. Weaker volumes, primarily in Europe, offset gains in other markets.

## NET FINANCE COSTS

Finance costs on a statutory basis amounted to £6.4m (2011: £6.3m), including £2.8m (2011: £3.6m) for the interest cost associated with the Group's defined benefit pension obligations. Finance income amounted to £2.8m (2011: £3.4m), including £2.3m (2011: £3.0m) for the expected return on the assets of the Group's defined benefit pension plans.

## PROFIT BEFORE TAX

Profit before tax decreased by £21.2m to £73.2m (2011: £94.4m) primarily due to the increase in exceptional items of £12.3m and demerger costs of £10.7m incurred in 2012.

## TAX CHARGE

The tax charge on ordinary activities was £23.3m (2011: £16.8m) on profit before tax of £73.2m (2011: £94.4m), an effective tax rate (before share of post-tax profit from joint-ventures) of 23.4% (2011: 17.4%).

## PROFIT FOR THE YEAR

Profit for the year was £45.0m (2011: £74.4m).

## EARNINGS PER SHARE

Earnings per share were 16.2 pence (2011: 27.0 pence). The weighted average number of shares was 277.5m (2011: 275.7m).

**David Egan**
Group Finance Director
28 March 2013

# Our Approach to Risk Management

As described in the Corporate Governance Report on pages 46 to 55, there is a continuous process for identifying, evaluating and managing significant risks faced by the business. Group management operates a risk management process designed to identify the key risks facing the business and reports to the Audit Committee on the process of how those risks are being managed.

The Board is responsible for the Group's risk management and also reviews the role of insurance and other measures used in managing risks across the Group. The Board receives regular reports on any major issues that arise and makes an assessment of how the risks have changed over the period under review.

| RISKS AND THEIR IMPACT ON THE GROUP | MITIGATION |
|---|---|
| *The financial performance and financial position of the Group may be adversely affected by a significant weakening in demand in its core end-markets and general macro-economic conditions.*<br><br>The global macro-economic environment is uncertain. While demand in Alent's key electronics end-markets has been reasonably stable overall during 2012 with weaker demand in Europe offset by continued growth in the Americas and Asia-Pacific, there has been general weakening in the global economy and slowing global industrial production, most notably in Europe. In addition to clear evidence of slowing worldwide economic growth, concerns about the stability of the Eurozone and the European financial/banking system remain. It is, as yet, unclear to what extent the seeming insolvency of Greece and the fiscal weakness of other countries such as Ireland, Italy, Portugal and Spain will impact the euro currency and the banking system. There is therefore considerable uncertainty as to how the Eurozone crisis, the global financial crisis and the wider economic situation will develop over time.<br><br>Alent supplies predominantly consumable products, on short lead times, mainly to the electronics, automotive and industrial end-markets. As such, the Group's expectations of future trading are based upon the Directors' assessment of end-market conditions, which are subject to some uncertainty. In the event that end-market conditions suffer significant deterioration, the Group may experience reductions in trading activity, a lower share price, financial failure of one or more of its key customers and suppliers, asset impairments, lower profitability and/or a material adverse impact on its financial position. | The Board will regularly review Group strategy, which will determine the markets in which the Group operates. The current spread of the Group's business, both geographically and by end-market served, provides some protection to the Group should conditions in particular markets deteriorate.<br><br>In late 2008 and the first half of 2009, the Group experienced a significant downturn in its key end-markets of electronics and automotive. However, the downturn in electronics end-markets was relatively short lived and the recovery has been strong. Demand in automotive markets has remained more difficult. The Group responded with a number of cost-reduction initiatives and the cost base remains tightly controlled.<br><br>Following the tight control of the cost base in recent years and the level and tenor of the Group's debt facilities, the Directors believe that the Group is well positioned financially to sustain a further downturn in end-market activity should this occur. |
| *The loss of key personnel or the failure to attract, develop or retain skilled or qualified employees could negatively impact Alent's business.*<br><br>Alent depends on the capabilities and performance of its executive officers and employees. Loss of key personnel or failure to attract or retain qualified employees could impact Alent's business and have a material adverse effect on its financial condition and operating results. | Alent believes in the importance of investing in and developing its most important asset, its people. Alent believes its people are its competitive advantage and it has created comprehensive development opportunities to introduce, reinforce and further strengthen their talents. The Group utilises a variety of programmes tailored to help its employees enhance their performance, set and achieve objectives, develop their leadership skills and recognise and reward their achievements. The Group has implemented a long-standing and rigorous succession planning programme with an identified succession plan in place for all senior members of staff. |

Throughout its global operations, the Group faces various risks, both internal and external, which could have a material impact on the Group's long-term performance. The Group manages the risks inherent in its operations in order to mitigate exposure to all forms of risk, where practical, and to transfer risk to insurers, where cost-effective. The risks below are not the only ones that the Group will face. Some risks are not yet known and some that are not currently deemed material could later become material. All of these risks could materially affect the Group, its businesses, and results of future operations or financial condition.

For further information please visit **www.alent.com**

| RISKS AND THEIR IMPACT ON THE GROUP | MITIGATION |
|---|---|
| ***The Group's financial position and trading results may be adversely affected by fluctuations in exchange rates, interest rates or the rate of inflation.***<br><br>Alent has no control over changes in foreign currency exchange rates, or inflation and interest rates. In the normal course of business, many transactions are carried out by the Group's businesses in currencies other than their reporting currency, leading to transactional foreign exchange risk, although this is not material for the Group overall. The Group is exposed to the effect of translating the results and net assets of its overseas subsidiaries into sterling. Significant fluctuations in the value of currencies in which it operates, in interest rates or in rates of inflation may adversely impact the Group's financial position and results of operations. | The Group attempts to manage transactional and balance sheet translation risks associated with currency exchange rate fluctuations through its hedging and funding policies and it is Group policy that foreign currency transaction exposures that are material at an individual operating unit level are hedged using appropriate instruments such as forward foreign exchange contracts. For its key operating currencies, it is the Group policy to broadly match the currency profile of its borrowings with the currencies of its asset base, but it does not hedge translational impact on the income statements of overseas subsidiaries. Where appropriate, the Group manages its interest rate exposures using interest rate swaps or other instruments. |
| ***The Group may lose customers to competitors with new or alternative technologies if its businesses do not adequately adapt to market developments.***<br><br>The markets in which many of Alent's businesses operate can experience rapid changes due to the introduction of new technologies. The Group's continued success depends upon its ability to continue to develop and produce new and enhanced products and services on a cost-effective and timely basis in accordance with customer demands. In addition, the markets for the Group's products are competitive in terms of pricing, product and service quality, product development and introduction time, customer service, financing terms and other similar factors. If the Group fails to adequately adapt to market developments related to new products and technology, it could lose customers to suppliers with better or less costly products. Alternatively or additionally, the Group could fail to achieve its anticipated returns on the amounts it has invested in research and development. These outcomes could have a material adverse effect on the Group's future prospects, financial position and results of operations. | Alent has invested significantly in research and development facilities and will continue to do so to ensure that the Group remains able to front-run emerging trends, and maintain its leadership position in terms of innovation and product development in its market niches. Indeed, research and development is critical to the continued success of the Group and significant managerial and financial resource is dedicated to this area. In 2012, total research and development spend was £16.5m, equivalent to 4% of NSV. The drive for smaller, smarter and faster electronics and the rapid pace of change, means that only those businesses with the required scale and technical expertise are able to successfully take advantage of these market opportunities. The Group has historically been at the forefront of market developments and remains confident that it will continue to be successful in leading the world in key new developments. |

# Our Approach to Risk Management continued

| RISKS AND THEIR IMPACT ON THE GROUP | MITIGATION |
|---|---|
| ***If the Group fails or is unable to protect, maintain and enforce its intellectual property, it may lose its exclusive right to use its technologies and processes.***<br><br>Throughout its operations, Alent relies on a combination of trade marks, copyrights, patents, trade secrets and confidentiality procedures and agreements to protect its proprietary rights. If the Group fails to, is unable to protect, maintain and enforce, or is the subject of theft or infringement of, its existing intellectual property, this may result in the loss of the Group's exclusive right to use technologies and processes which are included or used in its businesses. There can be no guarantee that the Group's procedures and contractual provisions will be adequate to prevent the misappropriation, infringement or other unauthorised use of the Group's intellectual property by third parties. In addition, the protection provided by these intellectual property rights varies between the countries in which the Group operates and the laws of certain countries in which the Group operates may not protect proprietary rights to the same extent as those of, for example, the United Kingdom or the United States of America. | The Group applies for patents over its major products, technologies and processes in a number of jurisdictions, including in Europe and the USA. New product and service offerings by competitors are regularly monitored and any perceived breach of a Group patent is vigorously challenged. To the extent possible, the Group avoids holding key intellectual property in countries which do not afford an acceptable degree of legal protection to the Group. |
| ***The Group's worldwide operations and businesses may be adversely affected by various political, legal, regulatory and other developments in countries in which it operates.***<br><br>Alent is subject to various legal and regulatory regimes, including those covering taxation and environmental matters, and political risks, including the imposition of trade barriers, changes of regulatory requirements, lack of protection for intellectual property rights and the volatility of input costs, selling prices, taxes and currencies. In particular, operating within the rapidly evolving developing nations can expose the Group's businesses to significant local risks and challenges. Future global political, legal or regulatory developments concerning the Group's businesses may affect their ability to operate and to operate profitably in the affected jurisdictions. Should the Group's businesses fail to comply with applicable legal and regulatory requirements, this may result in a financial loss or restriction on their ability to operate.<br><br>Alent's businesses are subject to a variety of operational risks, including natural catastrophe, terrorist action, theft, fraud and, particularly in developing nations, insufficient supply of high quality local management and technical personnel. If any of the operational risks materialise to a significant extent, this could result in a substantial interruption to a facility, loss of future insurance cover, potential loss of customers and revenue and financial loss. | As part of its planning process before entering a new market or territory, or expanding in an existing market or territory, the Group undertakes a rigorous assessment of the risks involved. In addition, the spread of the Group's major businesses, both geographically and by end-market served, provides some protection to the Group should any of its businesses be adversely impacted by legal, regulatory or other changes in an individual market or territory.<br><br>The Group has in place an insurance programme covering all of its businesses which provides an acceptable level of coverage for the operational risks which they face. |

| RISKS AND THEIR IMPACT ON THE GROUP | MITIGATION |
|---|---|
| *Alent's future prospects, financial position and results of operations could be adversely affected if it is unable to pass on to its customers fluctuations in the prices of the raw materials which it purchases.*<br><br>Tin, silver, gold, isopropyl alcohol, nickel sulphate and chromic acid are among the principal raw materials that Alent purchases. Alent's business may be affected by fluctuations in the price and supply of such raw materials. Alent's ability to pass on increases or decreases in the cost of raw materials to its customers is, to a large extent, dependent upon market conditions, established market practice and terms of trade. If Alent's ability to pass on increases in the cost of raw materials is limited, this could have a material adverse effect on Alent's future prospects, financial position and results of operations. | The Group has rigorous processes in place to ensure that any increases or decreases in the cost of commodity metal prices are passed on to its customers. Group systems are automatically uploaded with LME (London Metal Exchange) prices or equivalent on a daily basis. These prices are then agreed and passed on to the customer at the time of placing an order. |
| *Future expenditure on compliance with environmental and health and safety laws and regulations may materially adversely affect Alent's future prospects, financial position and results of operations.*<br><br>Alent is subject to applicable laws and regulations in all of the jurisdictions in which it operates and in which it has property assets undergoing remediation activity, including those relating to pollution, the protection of the environment, human health and safety, the disposal of hazardous substances and waste materials and remediation of any land or water contaminated by such substances. Violations of legal or other regulatory requirements could result in restrictions on operations, the imposition of more stringent permitting conditions, damages, fines or other sanctions, all of which may have a material adverse effect on Alent's future prospects, financial position and results of operations. | The Board has overall responsibility for Alent's Health, Safety and Environment (HS&E) policy and for monitoring its implementation. Executives and line managers at all levels are directly responsible through the normal management structure for HS&E matters in the operations under their control.<br><br>Alent's facilities are ISO Compliant to Quality, Environmental and Health and Safety Standards by a third party registrar. The systems require auditing to the established standards in the system and include continuous improvement as part of its core. System reviews are summarised with well supported corrective action methodologies where recommendations are warranted.<br><br>The Group has in place an insurance programme covering all of its businesses which provides an acceptable level of coverage for the operational risks which they face. |
| *The loss of key manufacturing assets as a result of a major catastrophe could cause significant disruption and lead to temporary plant closures or a suspension of operations and production which could negatively impact Alent's business and financial position.*<br><br>Failure to manufacture products within customers' specified schedules and timeframes could prevent Alent from fully performing its contractual obligations, which could severely impact sales and earnings and cause detrimental reputational damage to Alent. This could result in a loss of market share, weakened customer relationships and threaten Alent's position as global supplier of choice. | Alent delivers its products on a "just in time" basis from a manufacturing base of 23 facilities located around the world. Its "copy exact" manufacturing structure allows the Group to produce products to the same specification across all of its global manufacturing sites. Alent can therefore flex production between sites with minimum disruption to its customers.<br><br>Alent's procurement strategy ensures that it has agreements in place with regional suppliers across the globe and can increase its supply of raw materials in each region as necessary.<br><br>The Group has in place an insurance programme covering all of its businesses which provides an acceptable level of coverage for the operational risks which they face. |

# Our Approach to Corporate Responsibility

## BACKGROUND

Alent employs some 2,600 people (2011: 2,600), has a global base of 23 manufacturing facilities and is serving customers in more than 100 countries worldwide. We supply our customers with consumable products for use in their manufacturing processes, for example in the production of electronics, automotive, LED lighting and alternative energy products. We operate in "just in time" supply chains with short lead times from order to delivery. We therefore have a relatively large number of small and medium sized facilities located close to our customers throughout the world's major economic regions, rather than large centralised factories supplying customers worldwide. Our manufacturing processes are not energy intensive (total energy costs are approximately 1% of revenue) and do not produce large quantities of hazardous or other wastes and emissions.

## SUSTAINABILITY

Alent is committed to a sustainable societal, commercial and environmental global eco-system. We are focused on promoting sustainability throughout our environmentally friendly product and technology development activities, our operations, and the development of our people. We believe these efforts will benefit the environment, our business, customers, shareholders, our people and our worldwide value chain.

We recognise our operations impact a wide community of stakeholders, including investors, customers, business associates, our people and local communities. Therefore, the Company has a wide range of initiatives to support health, safety and environmental activities. Those activities include advanced manufacturing facilities, designed to international standards, a high level of training for chemical operators, and segregation of raw materials and finished goods.

All of our operations are designed with waste water treatment and pollution abatement equipment which meets or exceeds local compliance requirements.

The following are just a few examples of the initiatives we have undertaken to support health, safety and environmental activities:

### Conflict Minerals

Alent has been very engaged with critical industry stakeholders in the Conflict Minerals issue and regulation over the last few years. In August 2012, the US Securities and Exchange Committee ("SEC") published the final rules of implementation of Section 1502 of the Dodd Frank Act regarding Conflict Minerals. This Act was enacted by Congress in order to help eradicate the sales of "Conflict Minerals" from the Democratic Republic of Congo ("DRC") and adjoining countries (the "Conflict Countries"). The Act requires any USA publicly held company to annually disclose its use of conflict minerals that originated in Conflict Countries. As a UK listed company we are not required to comply but we choose to do so as we strongly believe in this initiative. Conflict minerals are those minerals whose derivatives are Tin, Tantalum, Tungsten or Gold. We take very seriously our obligations in this process and have been very proactive in communicating our goals to our suppliers for transparency and have documented certification of our source tin's status as "Conflict-Free".

Alent is actively participating in the Conflict-Free Tin Initiative , launched in September 2012 by the Dutch government. Its aim is to establish a pilot programme to create demand for conflict-free tin from a conflict region whose economy has collapsed due to a series of severe internal and cross-border conflicts. This initiative is designed to prevent an unintended boycott of minerals from the area due to the increased due diligence required when supplying Conflict Minerals from Conflict Countries.

### Metals Recycling

Alent moves c5% of the world's tin in any given year. We continue to invest and expand in our capabilities to take back metal waste streams and responsibly reclaim that waste into high purity raw materials for reuse. Our metals recycling services operate the largest metals recycling facility in North America with major operations in Europe, and significant operations in the Asia-Pacific and South American regions. As an example, in 2012 our largest recycling operation processed over 3.2m kg of solder scrap metal producing clean feed material for reuse in our manufacturing operations.

### Green Technologies

Alent's commitment to being a leading and preferred supplier of high performance specialty chemicals includes developing technologies that are socially responsible and eco-friendly. Our product technologies focus is to develop environmentally-friendly products, many that are lead-free, halogen-free and hexavalent-free. Many of our products and processes help support our customers' sustainability strategies.

We collaborate with our customers, technology partners, and the world's leading manufacturers to ensure that our green technologies create value by meeting current and future performance, productivity, design, profitability, safety, and regulatory requirements.

### Water Treatment

Our water treatment business has long been committed to developing products and services that help our customers lower their environmental impact. The product range is formulated and packaged in an ecologically responsible way; our R&D facilities continue to find new ways for businesses, commercial and domestic customers to reduce their carbon footprint through improved energy efficiency. Our product range has been independently verified by the Carbon Trust and has been recognised as environmentally sound with additional accreditations from KIWA, Belgaqua, BuildCert, DWTA, as well as being Energy Savings Trust recommended. Our products lessen the impact on the planet by preventing corrosion and scale formation as well as delivering actual improvements in heat transfer capability. Effective water treatment is essential, not only to minimise overall carbon emissions, but to conserve fuel reserves. We are also extending our product portfolio specially designed for renewable technologies, to increase our ability to deliver greater energy efficiency across a breadth of applications.

For more information on our sustainability initiatives, please visit **www.alent.com/Sustainability**

## OUR PEOPLE

It is the policy of the Group to provide equal opportunities for all its people. We are committed to meeting the labour rights and legislation requirements in each country in which we operate. The International Labour Organisation has identified eight core conventions as being fundamental to the rights of people in the workplace. We note those conventions and express our support for the principles.

We believe in the importance of investing in and developing our most valued asset: our people. We utilise a variety of programmes tailored to help them enhance their performance, set and achieve objectives, and develop their leadership skills. In addition, we recognise and reward their achievements. Our programmes are based on our core values:

- customer and marketplace-oriented innovation;
- teamwork and collaboration;
- enthusiasm and passion;
- results-orientation; people-orientation; and
- flexibility, responsiveness, and agility.

There are several critical success factors that underpin our strategy while driving our people development initiatives:

- we must be a customer and market driven company that our customers rely on and prefer to do business with;
- we must be a company that develops high value, innovative products in a timely manner; and
- we must create an organisation that has deep technical competence.

To achieve success, we need to ensure that we work within a culture that supports these critical success factors. Our comprehensive development opportunities help introduce, reinforce and further strengthen each of our people's special talents. Regardless of what stage in their career, each programme challenges participants to learn new and better ways to achieve their personal and professional goals.

We believe our people are our competitive advantage and we have created comprehensive development opportunities to introduce, reinforce and further strengthen their special talents. These opportunities include:

- EDGE (Employee Development Generates Excellence) Programmes;
- Six Sigma;
- health & welfare plans;
- incentive plans;
- Alent leadership programmes; and
- Alent technical training.

We believe that these initiatives are an important reason for our ability to consistently help create added value for our customers, allowing us to outperform many other competitors in our industry segments.

# Our Approach to Corporate Responsibility continued

## Charitable work

Alent has offices throughout the world and we seek to engage with the local community in each of our regional areas. The needs of the communities in which we operate are varied and diverse and although there are no global initiatives, there are numerous 'grassroots' charitable efforts carried out within the regions. Examples include:

- American Cancer Society — year round donations are generated through various events including participation in the 'Relay for Life' event;
- donations are made to soup kitchens through Group sponsored food drives;
- Christmas gift purchases are donated to multiple charities; and
- donations have been made throughout the years in support of natural disasters such as tsunamis, earthquakes and hurricanes.

## Employee helpline

Alent has a 24-hour Employee Business Concern Helpline telephone and email facility. This is an independent and confidential service through which our people worldwide may register any concerns about any incorrect or irregular practices they perceive in Alent's workplaces.

## POLICY

Alent recognises that appropriate attention to the fulfilment of our corporate responsibilities can enhance overall performance. In structuring our approach to the various aspects of corporate social responsibility, we take account of guidelines and statements issued by stakeholder representatives and other regulatory bodies from around the world. Social, environmental and ethical matters are reviewed by the Board, including the impact such matters may have on the Group's management of risk.

Particular emphasis is focused on the following areas:

**Code of Conduct:** requiring all of our businesses and our people to comply with the highest standards of legal and ethical behaviour.

**Health, Safety and Environment:** protecting the health and safety of our people, contractors, customers and the general public and reducing energy consumption and waste in our operations.

**Products and Services:** developing innovative products and services which promote sustainability in our customers' production processes and products.

## CODE OF CONDUCT

The Group has a Code of Conduct ("the Alent Code"), which has been distributed throughout the Group in over 25 languages and by which all of our businesses are required to operate. The Alent Code emphasises the Group's commitment to compliance with the highest standards of legal and ethical behaviour. The Alent Code is reproduced in full on the Group's website **www.alent.com**

The Alent Code sets out clear and simple principles covering: Customers, Products and Services; Our People; Investors; Society and Local Communities; Health, Safety and the Environment; Conflicts of Interest; and Competitors.

Long-term customer satisfaction is recognised as being essential to the attainment of Group goals, as is maintaining a reputation for integrity in all business and other dealings both with customers and suppliers. The Alent Code defines how we must compete vigorously and honestly.

The Group believes it can only achieve its goals through the efforts of its people. Job satisfaction requires working environments that motivate our people, together with opportunities for training and development to maximise personal potential. Wherever they work, our people have the right to be treated in good faith and with respect for the dignity of the individual. All Group companies must ensure that recruitment, training, promotion, career development, termination and similar employment-related issues are based on individual ability, achievement, experience and conduct without regard to race, colour, nationality, culture, ethnic origin, religion, gender, sexual orientation, age, disability or any other reason not related to job performance or prohibited by applicable law.

The Group is committed to the highest standards of corporate governance and transparent investor communication, as discussed in more detail in the "Governance" section of this report.

Alent seeks to be a good corporate citizen wherever it conducts business, to observe all national and local laws and take into account regional and local concerns, customs and traditions.

The Alent Code requires all of its people, officers and Directors to have a duty of loyalty to the Group. Personal interests that do, may or might appear to conflict with Group interests must be avoided at all times.

## Approach to anti-bribery and corruption training

The Alent Code and its policies on anti-bribery and corruption require that employees and others working on behalf of the Company do not engage in any form of bribery or corruption.

Our anti-bribery and corruption compliance programme will be refreshed and relaunched throughout the Company and will be implemented through a targeted face-to-face training programme. An e-learning module will be rolled out globally. New employees, as relevant, will go through the training as part of their induction process.

## HEALTH, SAFETY AND ENVIRONMENT ("HS&E")

Alent is committed to operating a sustainable, responsible organisation that protects the environment and the health and safety of those with whom we have relationships — our customers, our suppliers, our shareholders, our people, the environment and the communities where we conduct our activities. Our commitment to protecting the environment is focused both on minimising the impact of our operations and on making a contribution towards a sustainable future through the design of our products. Compliance with applicable health, safety and environmental laws and regulations is a fundamental obligation for all our businesses. We therefore monitor energy consumption and greenhouse gas emissions as Group level KPIs.

We are committed to maintaining a level of health, safety and environmental performance that is amongst the leaders in the specialty chemicals industry, and to demonstrating respect for the individual and the environment. We recognise that successful HS&E management involves integrating sound principles and practice into our daily activities so that business management and good performance levels are achieved by the collaborative effort of all of our people.

The Board has overall responsibility for Alent's HS&E policy and for monitoring its implementation. Executives and line managers at all levels are directly responsible through the normal management structure for HS&E matters in the operations under their control.

Particular emphasis is focused on the following areas:

**Regulatory compliance:** compliance with air, water and waste emissions, and industrial hygiene criteria;

**Health and Safety performance:** protecting the health and safety of our people, contractors, customers and the general public; and

**Environmental performance:** reducing energy consumption and greenhouse gas emissions.

## REGULATORY COMPLIANCE

Alent's 23 manufacturing locations are certified to ISO 14001, the international standard for environmental management systems. In addition, 19 of our operations are certified to OHSAS 18001, the international occupational health and safety management system. Certification to these international standards is not appropriate for all facilities, particularly smaller ones and those with very limited environmental impact.

Regulatory actions against Alent companies have been at a low level for several years. This is indicative of the emphasis on continuous HS&E performance improvement across the industry in relation to statutory obligations.

Like many manufacturers, some of our operations have potential environmental liabilities because of past operations at their current or former sites. Where remediation is required, we work with external specialists and with government authorities to ensure that remediation is conducted effectively and efficiently.

## REACH

REACH is a European Union regulation concerning the Regulation, Evaluation, Authorisation and restriction of Chemicals. The regulation came into force in 2007 and replaces a number of European directives and regulations with a single system. The REACH Regulation places greater responsibility on industry to manage risk and to provide safety information on chemicals used in its manufacturing processes. Manufacturers and importers are required to gather information on the properties of their chemical substances, and to register the information in a central database run by the European Chemicals Agency (ECHA) in Helsinki. The Agency acts as the central point in the REACH system; it manages the databases necessary to operate the system, co-ordinates the in-depth evaluation of suspicious chemicals and builds up a public database in which consumers and professionals can find information on hazardous materials.

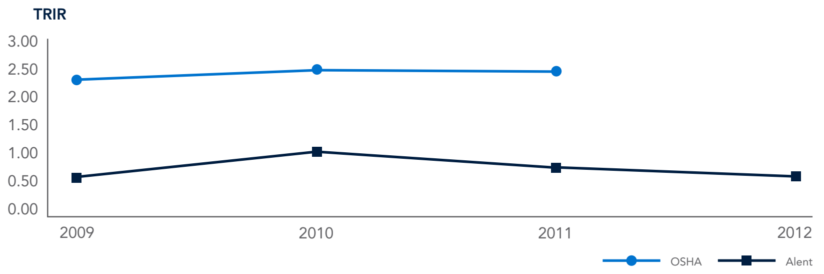
All of the Alent operations involved in the manufacturing of chemicals have complied with the regulatory requirements of this EU initiative and continue to do so. We are also working intensively on the development and testing of alternative less hazardous substances for use in our electroplating processes.

## RoHS

The Restriction of the Use of certain Hazardous Substances in Electrical and Electronic Equipment Directive was transposed into UK law on 2 January 2013. As a supplier to the electronics industry, our products must conform to the RoHS regulations and all of our products are certified to those standards.

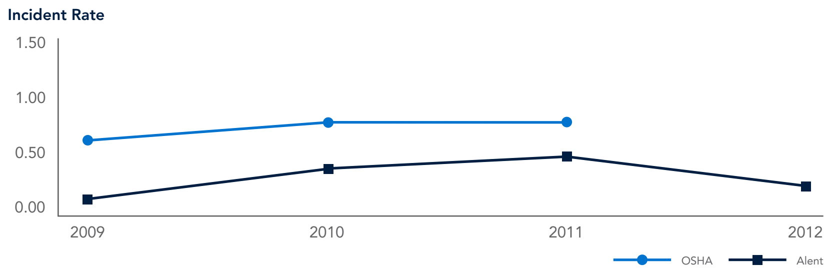
# Our Approach to Corporate Responsibility continued

## TOTAL RECORDABLE INCIDENT RATE (TRIR)




OSHA data for 2012 has yet to be published

## LOST WORK INCIDENT RATE (LWIR)




OSHA data for 2012 has yet to be published

## HEALTH AND SAFETY PERFORMANCE

Alent's operations involve the normal health and safety risks associated with manufacturing and other activities in the countries we operate. Alent's HS&E management programmes are designed to be forward-looking in the identification, management and mitigation of HS&E risks. We utilise audits, inspections and risk analyses to assess and continually improve our safety programmes. Both management system and compliance audits are performed and results shared across the organisation.

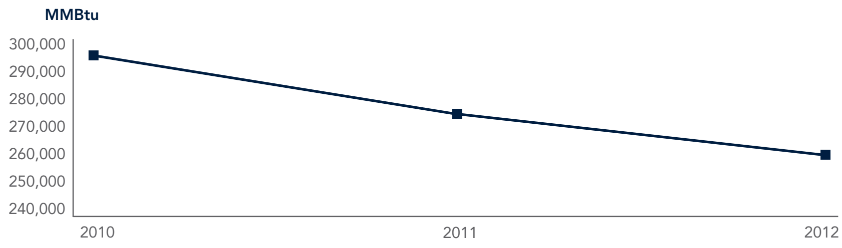
We developed a new communications vehicle in 2012, to address common safety concerns identified through incident reports and internal audits. Safety Bulletins serve as a concise platform to convey critical safety information and programmes that can be deployed throughout Alent in a timely manner. Safety Bulletins released in 2012 covered topics such as transferring and dispensing hazardous materials, incident reporting and investigation, and management of change.

**Global incident Rate**

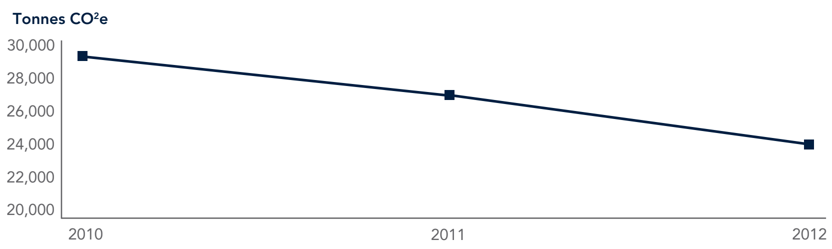
Alent uses a number of metrics to evaluate health and safety performance globally. All Alent facilities report injuries in accordance with United States Department of Labor Occupational Safety and Health Administration (OSHA) record keeping rules. Our incident rates are compared to NAICS 35 — the chemical manufacturing incident rates from the US Dept. of Labor — Bureau of Labor Statistics.

Total Recordable Injury Rate (TRIR) measures the number of recordable injuries/illnesses per 100 workers. In 2012, Alent achieved a TRIR of 0.64, a 12.3% improvement over 2011. Lost Work Incident Rate (LWIR) tracks the number of injuries/illnesses per 100 workers with one day or more away from work. Alent's 2012 LWIR was 0.30, a 31.8% improvement over 2011. OSHA data for 2012 has yet to be published.

## ENERGY CONSUMPTION




## GHG EMISSIONS (SCOPE 1 & 2)




## ENVIRONMENTAL PERFORMANCE

### Energy Consumption

Our manufacturing processes are not energy intensive and do not produce large quantities of air emissions. Alent operates a programme aimed at reducing energy use and its associated emissions of greenhouse gases (GHG). This programme trains our people to understand energy use and sets specific annual goals to reduce our energy consumption. We also leverage our extensive Six Sigma Programme to identify and execute projects around the reduction of energy consumption at our facilities around the world.

In 2012, Alent consumed 260,290 million Btu (British Thermal Units) (MM Btu) of energy. Of this, 82,397 MM Btu was electricity use (indirect energy). The remainder of our energy use consisted of natural gas and fuel oil (direct energy). On an absolute basis, our energy consumption was down 6.9% from 2011.

### GHG Emissions

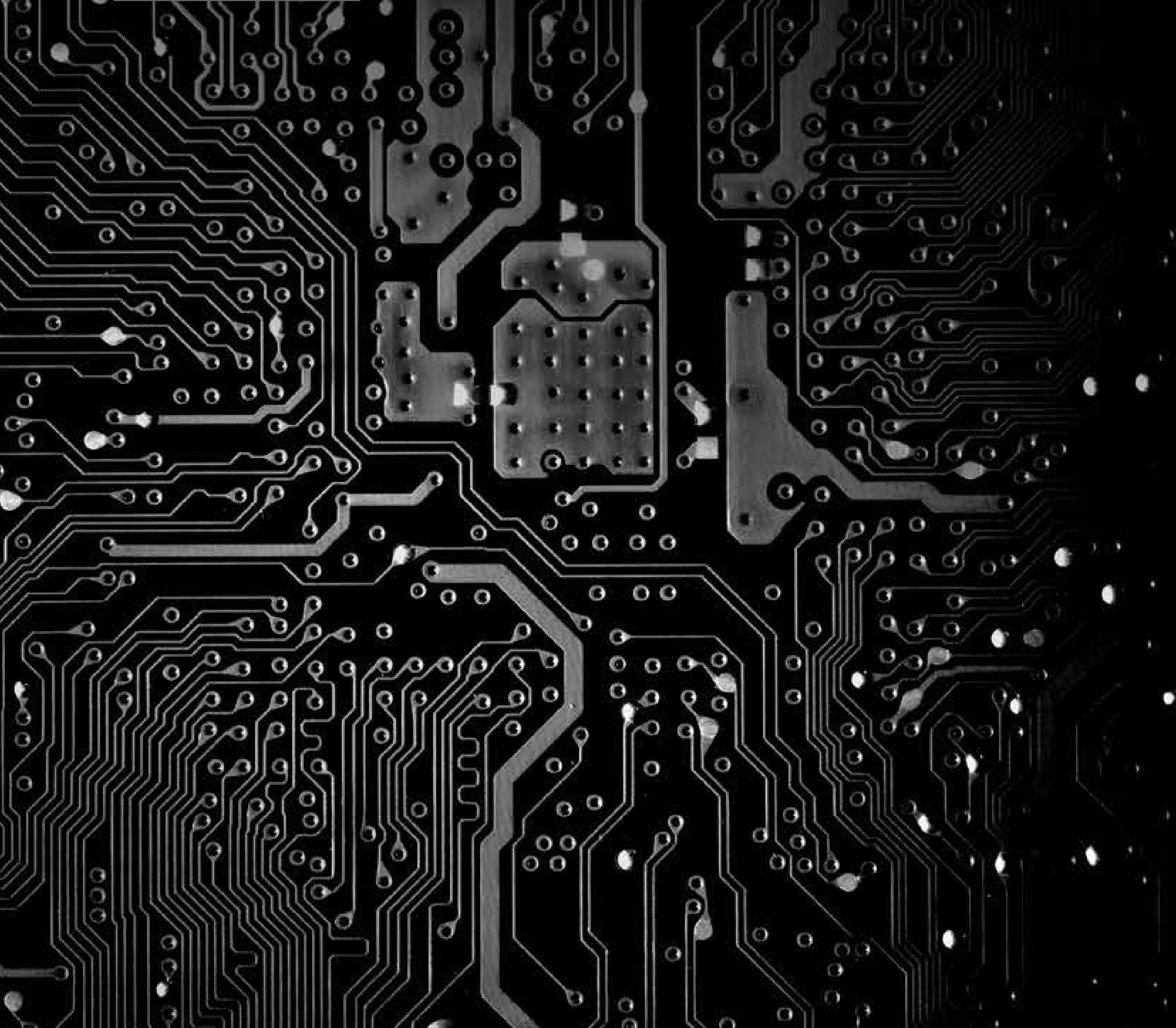
Alent's methodology for measuring GHG emissions follows the Greenhouse Gas Protocols of the World Business Council for Sustainable Development and the World Resource Institute. Alent reports direct and indirect GHG emissions in terms of $CO_2$-equivalents ($CO_2$-e). Direct GHG emissions are those that occur from stationary and mobile sources that Alent owns or controls. These emissions are also referred to as "Scope 1" emissions. Indirect emissions, or "Scope 2" emissions, are related to the use or purchase of electricity.

In 2012, Alent had 8,881 metric tons of direct and 15,660 metric tons of indirect GHG emissions. On an absolute basis, our total GHG emissions decreased 7.3% from 2011. Similar to energy, this reduction was achieved through the implementation of energy and GHG reduction projects.

# Our Strategy

We will be the industry's preferred supplier of high performance materials and chemistry across the electronic, industrial and automotive markets.

For further information please visit **www.alent.com**



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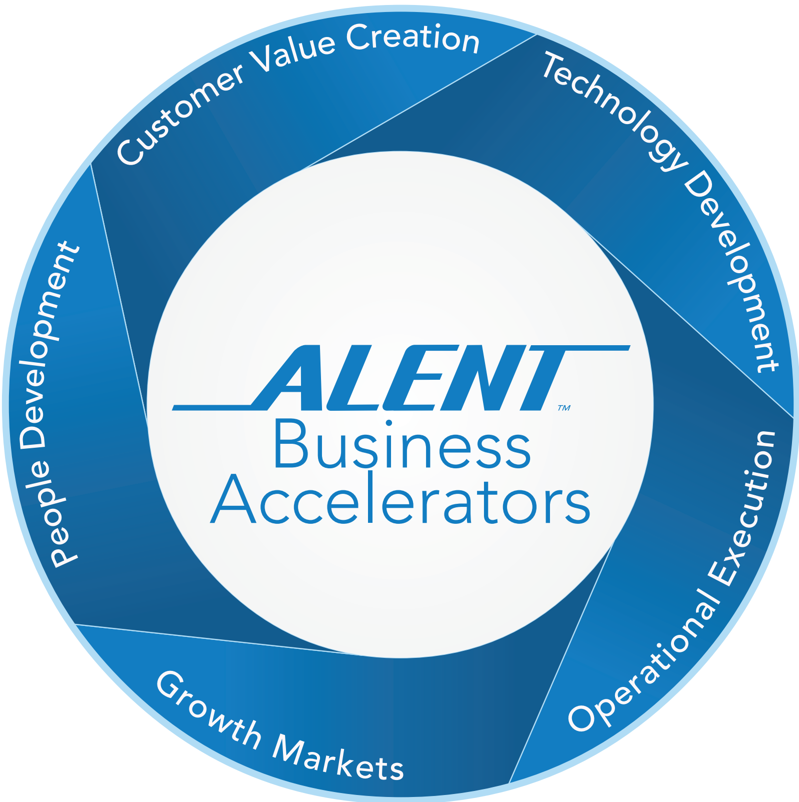
# Our Business Model & Strategy

We will continue to invest in core products in existing markets as well as investing in developing new products and technologies for existing as well as new market places. This will be backed up by our worldwide OEM selling programme which gives us true voice of customer and essential product approvals.




## OUR BUSINESS MODEL

- our business model is centred on our customers;
- we supply high performance, value adding, consumable products and services;
- our products constitute a small fraction of our customers' costs, while significantly reducing their production costs, energy usage and environmental impact;
- we sell on the basis of value rather than price;
- we command leading global market positions based on technology leadership, reliable "just in time" supply and outstanding technical service;
- we have production and technical support resources close to our customers in every geographic region, including a significant presence in the higher growth developing economies; and
- we are committed to maintaining a strong financial position to support our businesses and a robust risk management and internal controls framework.



# OUR STRATEGY

The key elements of our strategy are to:

### Focus on high growth end-markets

The electronics market is forecast to experience strong growth in terms of value, but even higher growth in terms of unit volumes, which are driven in part by the trend towards multiple electronic devices per individual (e.g. mobile phone and tablet). We have leading positions in the smartphone and tablet markets in which strong growth is expected to continue. Unit growth is the more important driver of our growth, and, therefore, we are well positioned to benefit from this trend. Similarly, the global automotive market is expected to produce over 100 million vehicles by 2015, which represents a CAGR of approximately 6%, from 2011-2015. There is a trend in the automotive industry towards increased electronic content in cars, and increased use of functional coatings for both decorative and anti-corrosion applications, which is benefiting both of our strategic businesses. We also intend to further enhance our presence in key geographical growth regions and markets.

### Further develop new markets and products

With our global presence and leading technologies, we are constantly identifying new opportunities in high growth complementary segments such as solar and LED. Although these markets are still at relatively early stages of their development, our Board believes they could provide significant additional sources of revenue in the future. The opportunity comes both from leveraging existing products and technologies in these new markets and through developing new product solutions, as well as potentially through bolt-on acquisitions.

### Expand our value-add and OEM sales strategy

We continue to focus on developing the value sales competencies across all our people so as to realise the full margin potential of the products and technologies we offer. In addition, we intend to increase the service element of revenue through technical process support and customer training academies, which improves margins and further deepens the customer relationship. We will continue to leverage our strong OEM relationships to further increase OEM qualification and specification of our specialty material chemistries and technologies.

### Continue to develop higher-margin products and improve mix and operational efficiencies

We have pursued a strategy of moving away from lower-margin commoditised products (e.g. solder bar) and focusing on higher-margin, more innovative products such as novel alloys, damascene copper additives, solder preforms, immersion tin printed circuit board surface finishes, wafer plating, and plating on plastics. This process will continue, and the constant evolution through product innovation means that further opportunities for mix improvement will arise. In addition, we plan to further roll-out and develop operational excellence programmes increasing productivity and reducing costs. We have been incorporating Six Sigma practices into our operations since 2001.

### Further develop our technology and innovation leadership

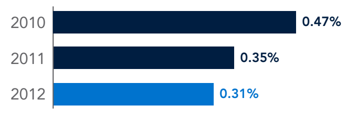
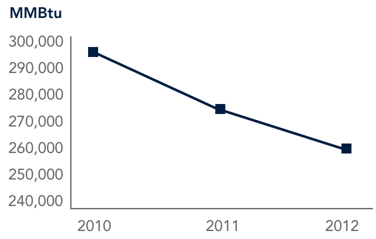
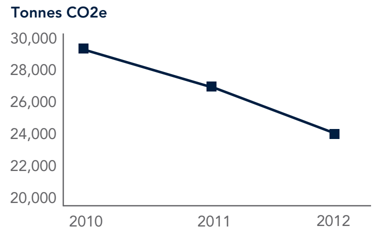
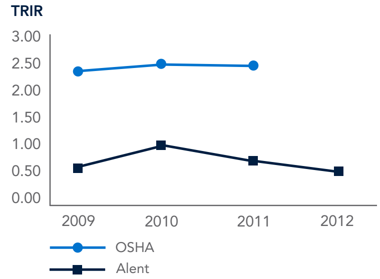
We have invested significantly in R&D facilities and will continue to do so to ensure that we remain able to front-run emerging trends, and maintain our leadership position in terms of innovation and product development in our market niches. Indeed, R&D is critical to our continued success. The drive for smaller, smarter and faster electronics in particular, and the pace of change, means that only those players with the required scale and technical expertise are able successfully to take advantage of these market opportunities. Historically, we have been at the forefront of market developments and we remain confident that we will continue to be successful in leading the world in key new developments.

# Our Key Performance Indicators

We monitor progress against our strategic objectives via a series of financial and non-financial KPIs.

| PRIORITY | | PROGRESS |
|---|---|---|
| **OPERATIONAL GROWTH** | | |
| Net sales value (NSV) | NSV is revenue less commodity metals that pass through to customers. As the changes in the value of these commodity metals are passed through to customers, NSV is a more appropriate measure of the underlying activity of the business. | 2011 £433m<br>2012 £417m |
| Adjusted operating profit and NSV margin | Adjusted operating profit and NSV margin are metrics used to determine the underlying performance of the Group. | 2011 21.8% £94.4m<br>2012 23.3% £97.2m |
| Adjusted profit before tax | Adjusted profit before tax is used to assess the financial performance of the Group. | 2011 £87.1m<br>2012 £89.0m |
| Adjusted earnings per share | Adjusted earnings per share is used to assess the earnings capacity of the Group. | 2011 24.1p<br>2012 24.6p |
| **INVESTING FOR GROWTH** | | |
| Research and development (R&D) spend and percentage of NSV | R&D is a means by which the Group can generate future growth by developing new products and services. | 2011 3.7% £16m<br>2012 4% £16.5m |
| Capital expenditure and percentage of depreciation | Capital expenditure is capital invested to maintain or upgrade physical assets in the Group. | 2011 189% £16.1m<br>2012 246% £21.9m |
| **FINANCIAL DISCIPLINE** | | |
| Adjusted cash generated from operations | Adjusted cash generated from operations is a means to assess the underlying cash generation of the Group. | 2011 99% £93.0m<br>2012 88% £86.0m |
| Return on investment | Return on investment is a means to assess the underlying financial performance of the Group. | 2011 13%<br>2012 13% |

A full definition of non-GAAP measures is outlined on page 87

<table>
<tr><th>PRIORITY</th><th></th><th>PROGRESS</th></tr>
<tr><td>Net debt/EBITDA and interest cover</td><td>Net debt/EBITDA and interest cover are used to assess the financial position of the Group and its ability to fund future growth.</td><td>2012<br>Nebt debt of £144.4m<br>Net debt/EBITDA of 1.3x</td></tr>
<tr><td colspan="3">CORPORATE SOCIAL RESPONSIBILITY</td></tr>
<tr><td>Customer complaints</td><td>Our customers are at the heart of our strategy and vital to our success. Therefore "Right first time" is our key measure for dealing with our customers.</td><td>
</td></tr>
<tr><td>On time deliveries</td><td>Our customers are dependent on us for delivery of products and services on time, to cost and to specification.</td><td>
</td></tr>
<tr><td>Energy consumption</td><td>The Group's aim is to reduce energy usage and associated greenhouse gas emissions.</td><td>
</td></tr>
<tr><td>Greenhouse gas emissions</td><td>As with energy consumption, measuring greenhouse gas emissions is part of the Group's programme to reduce energy usage and associated emissions.</td><td>
</td></tr>
<tr><td>Total recordable injury rate (TRIR)</td><td>Rate of injuries and illnesses is used to monitor progress towards the Group's goal of zero work-related injuries and illness.</td><td>

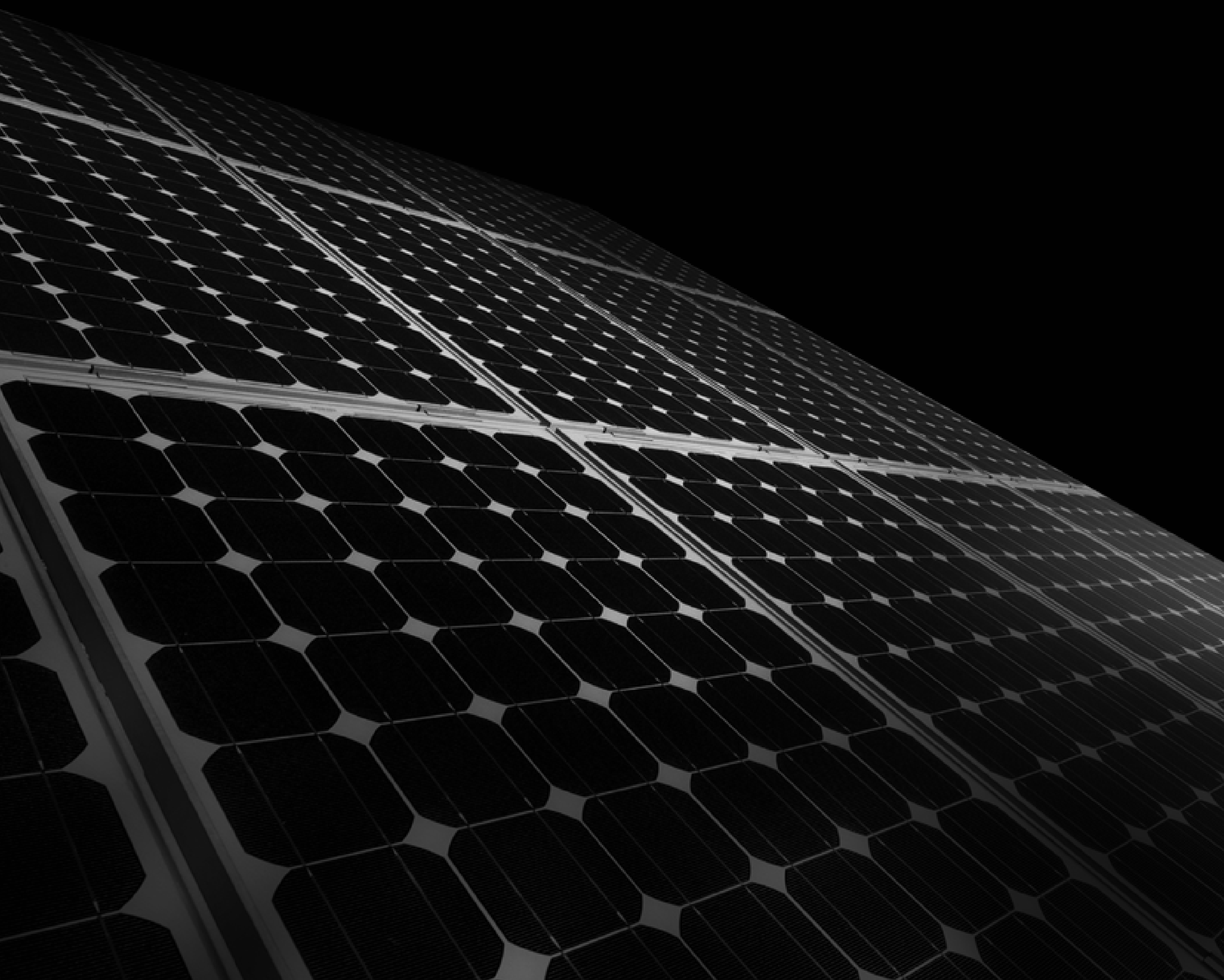
OSHA data for 2012 has yet to be published</td></tr>
</table>

OUR STRATEGY

# Our Governance

We are committed to the principles of best practice in corporate governance.

For further information please visit **www.alent.com**



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# Our Board

## A STRONG AND DIVERSE BOARD

Ultimate responsibility for the management of Alent rests with the Board of Directors. Our Board comprises the Chairman, two Executive Directors and five Non-executive Directors. The primary focus of the Board is on strategic and policy issues.

**PETER HILL**, CBE, Chairman and Chairman of the Nominations Committee

Peter Hill was appointed as a Director on 10 September 2012, and further appointed as Chairman and Chairman of the Nominations Committee of Alent plc on 31 October 2012. Peter served as Chief Executive of Laird PLC from 2002 until he stepped down from the board in November 2011. He previously held senior management positions with BTR plc (subsequently Invensys plc) and was an executive director of Costain Group PLC. He was previously a non-executive director of Cookson plc, Meggitt PLC and Oxford Instruments plc, and was a non-executive board member of UK Trade and Investment. Peter Hill is a British citizen.

**STEVE CORBETT**, Chief Executive

Steve Corbett was appointed as a Director of Alent plc on 10th September 2012. He was previously at Cookson plc from 1990 and held various senior management roles within its joining technologies businesses before, in 2002, being appointed President of Enthone, the then newly acquired surface chemistries business. He was promoted to President and Chief Executive Officer of Cookson's Performance Materials division in 2004 and served as an executive director of Cookson from May 2012 until he resigned from the Board in October 2012 following the announcement of the proposed demerger of Cookson Group plc. He previously held senior roles with Heraeus GmbH and Corning Glass. Steve Corbett is a US citizen.

**DAVID EGAN**, Group Finance Director

David Egan was appointed as a Director of Alent plc on 1 January 2013. He was previously the Chief Financial Officer at ESAB, which was the largest division of Charter International plc which was itself acquired by Colfax Corporation in 2012. Prior to joining ESAB in 2008, David was Group Financial Controller of Hanson plc based in London, and prior to that Chief Financial Officer, Hanson Asia Pacific based in Singapore. He has extensive international experience of businesses in Europe, including the Russian Federation, Asia, Australasia, and the Americas. David Egan is a qualified Certified Practising Accountant (CPA), Australia and is a dual British and Australian citizen.

**DR EMMA FITZGERALD**, Non-executive Director

Emma FitzGerald was appointed as a Director of Alent plc on 31 October 2012. Emma is Vice-President, Global Retail Network for Shell International. She joined Shell in 1992 and has worked in a variety of technical, strategic and general management roles based in Asia and Europe, including the position of Managing Director of Shell China/Hong Kong Lubricants based in Beijing. She has also served on subsidiary boards in both Korea and China. Emma holds a DPhil in Solid State Physics and Surface Chemistry, is a Trustee of The Windsor Leadership Trust, and sits on the leadership development advisory panel for the Prime Minister's Office of the Singapore Government. She was previously a non-executive director of Cookson plc. Emma FitzGerald is a British citizen.

It approves the Group strategy, oversees the allocation of resources and monitors the overall performance of the Group. Biographies for each of our Directors are set out below.

**LARS FÖRBERG**, Non-executive Director

Lars Förberg was appointed as a Director of Alent plc on 31 October 2012. Lars is a managing partner of Cevian Capital, which holds over 20% of Alent's issued share capital. Lars co-founded Cevian Capital in 2002. In 1997, he joined AB Custos, the Swedish investment company, ultimately becoming Chief Investment Officer. Prior to AB Custos, he had been an investment manager and a partner of Nordic Capital. Lars is a non-executive director of Danske Bank and the Swiss headquartered freight-forwarding company, Panalpina. He also sits on the nominations committee of: Metso Corporation, the global Finnish technology and services company; Tieto Corporation, the Finnish IT service company; and AB Volvo, the Swedish truck and construction equipment manufacturer. Lars Förberg is a Swedish citizen.

**NOËL HARWERTH**, Non-executive Director and Chairman of the Remuneration Committee

Noël Harwerth was appointed a Director of Alent plc on 31 October 2012 and is Chairman of the Remuneration Committee. Noël spent 15 years with Citicorp, latterly as Chief Operating Officer of Citibank International, having previously been with Dun and Bradstreet and Kennecott Copper Corporation. She is currently Chairman and non-executive director of Sumitomo Mitsui Banking Corporation Europe, a non-executive director of Standard Life plc, non-executive director and chair of the remuneration committee of Avocet Mining PLC and a non-executive director of Harry Winston Diamond Corporation Inc. She was a non-executive director and Chairman of the remuneration committee of Logica plc until 2012 and was previously a non-executive director of the London Metal Exchange, Impellam Group plc, Corus Group plc, RSA Insurance Group and TFL Group. Noël Harwerth holds dual British and US citizenship.

**JAN OOSTERVELD**, Non-executive Director

Jan Oosterveld was appointed as a Director of Alent plc on 31 October 2012. Jan spent 32 years with Royal Philips Electronics, where he was a member of the group management committee with responsibility for corporate strategy, the Chief Executive of Philips Asia Pacific and the Chairman of LG Philips LCD. He is a non-executive director and chairman of the remuneration committee of Candover Investments plc and a non-executive corporate director of Barco N.V. He served as Chairman of the supervisory board of Crucell N.V. until December 2011 and was previously a non-executive director of Cookson plc. Jan is also a professor at IESE Business School in Barcelona. Jan Oosterveld is a Dutch citizen.

**MARK WILLIAMSON**, Non-executive Director, Senior Independent Director and Chairman of the Audit Committee

Mark Williamson was appointed as a Director of Alent plc on 31 October 2012 and is Senior Independent Director and Chairman of the Audit Committee. Mark was formerly Chief Financial Officer of International Power plc. He joined International Power in 2000 as Group Financial Controller and was appointed to the board as Chief Financial Officer in 2003, stepping down in 2012. Previously, he was Group Financial Controller and Group Chief Accountant at Simon Group plc, the engineering and bulk chemicals group. He is deputy chairman and senior independent non-executive director of Imperial Tobacco Group PLC, having previously served as chairman of the audit committee, and is a non-executive director of National Grid plc. Mark qualified as a Chartered Accountant in South Africa. Mark Williamson is a British citizen.

# Corporate Governance

This report describes the Company's corporate governance structure and explains how the Company applies the principles of the UK Corporate Governance Code issued by the Financial Reporting Council in 2010 ("the Code"). The Company is committed to ensuring that the highest standards of corporate governance are maintained and intends to comply fully with the main and supporting principles of the UK Corporate Governance Code. For the period from incorporation to listing on 19 December 2012 the Company did not comply with the provisions of the Combined Code, as this was ultimately the responsibility of the Board of Cookson Group plc. With the exception of undertaking a Board evaluation, which has not been possible in the time period, the Company has complied with the Code from the date of listing.

## LEADERSHIP

### The Role of the Board

The Board is appointed by shareholders, who are the owners of the Company. The Board's principal responsibility is to act in the best interests of the shareholders as a whole, within the legal framework of the Companies Act 2006. Ultimate responsibility for the management and long-term success of Alent rests with the Board of Directors. The Board focuses primarily upon strategic, policy and governance issues and is responsible for the Company's long-term success. It approves the Company's strategy, oversees the allocation of resources, approves the Company's operating budgets which are normally proposed by the Chief Executive and monitors the performance of the Company against them. The Board is also responsible for identifying, evaluating and managing the key risks faced by the Company, and for establishing the effectiveness of the Company's systems of internal controls. It has a formal schedule of matters reserved to it and delegates certain matters to committees as set out in the Report. In addition, the Non-executive Directors constructively challenge the Executive Directors and review their performance. The Board reviews, at least annually, the performance of the Chairman.

### The Roles of the Chairman and Chief Executive and Division of Responsibilities

The division of responsibilities between the Chairman and the Chief Executive has been agreed by the Board and is set out in writing.

The Chairman leads the Board, promoting a culture of openness, challenge and debate and ensuring its effectiveness and high standards of corporate governance to safeguard the interests of shareholders. The Chairman facilitates and encourages open communication and constructive working relationships between the executive and Non-executive Directors and provides overall guidance to the Executive Directors and senior management. The Chairman in conjunction with the Nominations Committee is also responsible for Board succession planning and has ultimate responsibility for communication and dialogue with shareholders, together with ensuring that the Board acts in the best interest of shareholders taken as a whole.

The Chairman in conjunction with the Company Secretary and Executive Directors sets the agenda for Board meetings and ensures that all Board and Committee members receive accurate, timely and clear information prior to meetings. A clear structure for the operation of the Board and its Committees is in place. The Chairman meets routinely with the Chief Executive, the Finance Director and the Company Secretary to discuss relevant matters. The Board considers that the Chairman is able to, and does, devote sufficient time to his duties at Alent.

The Chief Executive has overall responsibility for the day-to-day management of the business, the performance for which he is accountable and upon which he reports to the Board. He has the lead role in developing the Company's strategic direction for consideration and approval by the Board, and for the implementation of the agreed strategy. The Chief Executive is responsible on a day-to-day basis for, and oversees, the Company's performance in safety, health and environmental matters.
The Chief Executive is supported by the Finance Director in the provision to the Board of high quality financial information on the company's performance.

The biographical details of the Chairman and details of his relevant experience are set out on page 44.

### The Role of Executive Directors

The Executive Directors have specific executive responsibilities, of which the Chief Executive's are set out above. The Chief Executive provides leadership to the management team, sets the culture, standards, ethics and values of the Company, and is responsible for management development and succession planning within the Company. The Finance Director has particular responsibility for the accuracy and completeness of the Company's financial reporting, for treasury, tax and risk management, and for internal financial controls.

Executive Directors are not members of the Board Committees, although they may be invited to attend.

The biographical details of the Executive Directors and details of their relevant experience are set out on page 44.

### The Role of Non-executive Directors

The Non-executive Directors bring a wide range of skills and international experience to the Board. Their role is to understand the business and its markets, to help shape and develop strategy, and to challenge constructively and support the management. Additionally, their role is also to satisfy themselves with regard to the integrity of the Company's financial information and to ensure that the Company's financial controls and risk management systems are robust and defensible. Collectively they hold or have held senior positions in their chosen fields and contribute a wide range of international experience and objective perspective to the Board. They represent a strong, independent element on the Board. As chairman of the Board committees, the independent Non-executive Directors also fulfil important leadership roles. As members of the Board committees, the independent Non-executive Directors will bring focus on governance and succession planning, internal controls, risk management and remuneration policies.

The biographical details of the Non-executive Directors and details of their relevant experience are set out on pages 44 to 45.

## The Senior Independent Director

The Board nominates one of the Non-executive Directors to act as Senior Independent Director and provide an alternative contact at Board level, other than the Chairman, to whom shareholder matters can be addressed. The Senior Independent Director, when necessary, supports the Chairman and the other Non-executive Directors on Company related matters. He will act as a sounding board for the Chairman and, should it be required, can act as an intermediary for any concerns of other Non-executive Directors. There is a written job specification for the role which will be reviewed annually by the Nomination Committee. The Senior Independent Director is responsible for undertaking the annual evaluation of the Chairman's performance, leading the recruitment process for a new Chairman while ensuring an orderly succession process. Mark Williamson is the Senior Independent Director.

## The Company Secretary

The Company Secretary supports the Chairman on corporate governance matters. Together with the Chairman he is responsible to the Board in respect of compliance with Board procedures, ensuring a timely flow of information and for the setting of the annual programme of Board and Committee meetings and their agendas. Furthermore, he has responsibility, via the Chairman, for ensuring that the Board is kept up to date on legislative, regulatory and governance matters and developments and that all induction and professional development needs are met.

The Company Secretary ensures that there is an appropriate level of communication between the Board and its Committees and between senior management and the Non-executive Directors.

The Company Secretary is secretary to each of the board committees. All Directors have access to the advice and services of the Company Secretary.

## Board meetings

The Board is presently scheduled to convene formally on eight occasions during 2013 and will hold any number of ad hoc committee meetings to consider non-routine business as necessary. In addition, it is envisaged that the Chairman and the other Non-executive Directors will meet routinely on their own without the executive Directors present, and, at least once each year the Non-executive Directors will meet without the Chairman being present to discuss matters such as the Chairman's performance.

Specific matters reserved for the Board, which will be reviewed annually, include: reviewing Company and divisional performance; approving significant transactions including acquisitions, divestments, capital expenditure and changes to the Company's capital structure; setting and approving the Company's strategy and annual budget; approving the Company's financing and treasury policies; declaration of dividends; succession planning; and approving Board appointments and the remuneration of the Non-executive Directors. In addition, the Board has overall responsibility for health, safety and environmental matters, and maintains overall responsibility for the Company's systems of internal control and risk management processes.

# Corporate Governance continued

## BOARD COMMITTEES

The Board has established the Audit, Remuneration and Nominations Committees. Membership of the Audit and Remuneration Committees is composed of the independent Non-executive Directors. The Board also delegates specific responsibilities to its Finance and Share Schemes committees.

### Audit Committee

| | |
|---|---|
| Responsibilities: | To monitor the integrity of financial reporting and to assist the Board in its review of the effectiveness of the Company's internal controls and risk management systems. |
| Chair of Committee: | Mark Williamson |
| Membership: | All independent Non-executive Directors. |
| Attending by invitation: | Company Chairman; Lars Förberg (non-independent Non-executive Director); the Chief Executive; the Finance Director and the external auditor are invited to attend on a regular basis. The Head of Internal Audit and the Group Financial Controller are invited as and when appropriate.<br><br>The Chairman of the Committee may request the attendance of others at meetings including external advisers. |
| Minimum number of meetings per year: | Three |
| Committee Report: | Page 53 |

### Remuneration Committee

| | |
|---|---|
| Responsibilities: | To determine the appropriate remuneration packages for the Company's Chairman, Executive Directors, and Company Secretary and to recommend and monitor the level and structure of remuneration for other senior management. |
| Chair of Committee: | Nöel Harwerth |
| Membership: | All independent Non-executive Directors. |
| Attending by invitation: | Company Chairman; Lars Förberg (non-independent Non-executive Director); the Chief Executive and the Vice President, Human Resources are invited to attend as required. The Chairman of the Committee may request the attendance of others at meetings including external advisers. |
| Minimum number of meetings per year: | As necessary. (It is anticipated that at least three meetings will be held each year.) |
| Committee Report: | Page 56 |

### Nominations Committee

| | |
|---|---|
| Responsibilities: | To advise the Board on appointments, retirements and resignations from the Board and its Committees and review succession planning for the Board. |
| Chair of Committee: | Peter Hill, the Chairman (except where considering his own succession or replacement in which case the Committee is chaired by Mark Williamson, the Senior Independent Director). |
| Membership: | The Chairman and the Non-executive Directors. |
| Attending by invitation: | Chief Executive; the Chairman of the Committee may request the attendance of others at meetings including external advisers. |
| Minimum number of meetings per year: | As necessary. |
| Committee Report: | Page 55 |

### Finance Committee

| | |
|---|---|
| Responsibilities: | To approve specific funding and treasury related matters as set out in the Company's delegated authorities or as delegated from time to time by the Board. |
| Chair of Committee: | The Chairman |
| Membership: | The Chairman, the Chief Executive, the Finance Director and the Company Treasurer. |
| Attending by invitation: | Others whom the Chairman shall so require. |
| Minimum number of meetings per year: | As necessary. |

### Share Schemes Committee

| | |
|---|---|
| Responsibilities: | To facilitate the administration of the Company's share schemes. |
| Chair of Committee: | Any member. |
| Membership: | Any two Directors. |
| Attending by invitation: | Others whom the Chairman shall so require. |
| Minimum number of meetings per year: | As necessary. |

Each committee has written terms of reference agreed by the Board. These are available to view on the Company's website **www.alent.com**

Directors met informally prior to the Company's listing on 19 December 2012 to review and, where necessary, approve various matters relating to the Demerger. No formal Board meetings were held between the listing of the Company on 19 December 2012 and 31 December 2012 so no table of attendance is included. From January 2013 a normal schedule of Board meetings has commenced.

## BOARD EFFECTIVENESS

### The Composition of the Board

The Board currently has eight Directors, comprising the Non-executive Chairman, Peter Hill CBE; the Chief Executive, Steve Corbett; the Finance Director, David Egan; and five Non-executive Directors, Dr Emma Fitzgerald, Lars Förberg, Nöel Harwerth, Jan Oosterveld and Mark Williamson. Simon O'Hara serves as Company Secretary. All of the Non-executive Directors are considered to be independent, with the exception of Lars Förberg.

The Board seeks to ensure that both it and its Committees have the appropriate range of skills, experience, knowledge and independence to enable them to discharge their respective duties and responsibilities effectively. Alent is privileged to have a Board of Directors with such international business backgrounds and a range of diverse skills, experience and nationalities. This diversity will be invaluable in developing the Company's business strategy and will enable such a global manufacturing business to be effectively governed.

The Board considers its size to be appropriate for the requirements of the business. No one other than Committee Chairman and members of the Committees are entitled to be present at meetings of the Audit, Nominations and Remuneration Committees, but others may attend by invitation.

The Board considers the majority of the Non-executive Directors to be independent of management and free from any business or other relationship which could affect the exercise of their independent judgement.

The Chairman satisfied the independence criteria on his appointment to the Board. Dr Emma Fitzgerald, Nöel Harwerth, Jan Oosterveld and Mark Williamson have been determined by the Board to be independent in character and judgement. Lars Förberg is not considered to be independent as he is managing partner of Cevian Capital which holds 20% of Alent's issued ordinary share capital.

Mr Williamson currently serves as Senior Independent Director.

### Appointments to the Board and its Committees

The Nominations Committee leads the process for Board appointments and makes recommendations to the Board. The Board through the Nominations Committee follows a formal, rigorous and transparent procedure based on objective criteria for the appointment of new Directors to the Board. The Committee considers any proposed recruitment in the context of the Company's strategic priorities. Board appointments are made on merit. Non-executive appointees are required to demonstrate that they have sufficient time to devote to the role. The Nominations Committee is also responsible for reviewing the Board succession recognising the importance of recruiting Non-executive Directors with the necessary technical skills and knowledge relevant to the work of its committees. Further information on the Nominations Committee is set out in the Nominations Committee Report on page 55.

# Corporate Governance continued

### Time commitment of the Chairman and Non-executive Directors

The Chairman and Non-executive Directors each have a letter of appointment which sets out the terms and conditions of their directorship. An indication of the anticipated time commitment is provided in the recruitment role specification, and their letters of appointment provide details of the meetings that they are expected to attend, along with indicating the need to accommodate travelling time (particularly for overseas trips) and to set aside sufficient time to prepare for meetings and to regularly refresh and update their skills and knowledge. All Directors agree to commit sufficient time for the proper performance of their responsibilities and understand that this will vary from year to year depending on the Company's activities. Directors are expected to attend all Board meetings and any additional meetings (including Committee meetings) as required. Directors' other significant commitments are disclosed to the Board at the time of their appointment and they are required to notify the Board of any subsequent changes. The Company has reviewed the availability of the Non-executive Directors and considers that each of them is able to, and in practice does, devote the necessary amount of time to the Company's business.

### Induction and training

The Company Secretary is tasked with ensuring that a comprehensive induction programme is provided to all new Directors. This includes visits to manufacturing and other Company facilities, meetings with key Company executives and introductions to the Company's principal external advisers, as appropriate. New Directors are advised of their legal and other duties and obligations as Directors of a listed company. Reference materials are provided, including information about the Board, its committees, Directors' duties, procedures for dealing in the Company's shares and other regulatory and governance matters.

The Chairman will meet with Directors on an on going basis to review any training and development needs. In addition, the Directors are provided with details of seminars and training courses relevant to their role. They are encouraged to attend these as they consider appropriate and are supported by the Company in so doing. Where a general training need is identified, in-house training will be provided to the entire Board.

### Information

The Board has in place processes to ensure that it is supplied in a timely manner with information of an appropriate quality to enable it to adequately discharge its duties. Papers are provided to the Directors in advance of the relevant Board or committee meeting to enable them to make further enquiries about any matters prior to the meeting should they so wish. This also allows Directors who are unable to attend to submit views in advance of the meeting.

The Company Secretary oversees the distribution of these papers and ensures that there is an appropriate level of communication between the Board and its committees and between senior management and the Non-executive Directors. He also keeps the Board informed of relevant developments in corporate governance. The Chief Executive provides, as a matter of routine, a written update on important business issues between meetings and invites the views of the Directors on these.

### Support

There is an agreed procedure in place to support Directors, in the furtherance of their duties, to take independent legal advice if necessary, at the Company's expense.

### Performance evaluation

In accordance with the provisions of the Code, the Board of Alent plc intends to undertake a formal and rigorous evaluation of its own performance and effectiveness and to assess the performance of its committees and individual Board members on an annual basis. Given that the Company was only listed on 19 December 2012, no evaluation process was conducted in 2012. The Board will consider the balance of skills, experience, independence and knowledge of the Company on the Board, its diversity, including gender, how the Board works together as a unit and other factors relevant to its effectiveness.

The Chairman will be responsible for and will lead the evaluation process and will be assisted by the Company Secretary. In line with best practice, the Company will engage an external facilitator for the Board evaluation exercise as appropriate in accordance with its requirements to do so. The Senior Independent Director will be responsible for the performance evaluation of the Chairman.

### Re-election of Directors

The Code recommends that all Directors of FTSE 350 companies be subject to annual election by shareholders. All the Directors will therefore be offering themselves for election at this year's AGM, with the biographical details of each of the Directors, including details of their other directorships and relevant skills and experience set out in the 2013 Notice of AGM. The Board believes that each of the Directors standing for election is effective and demonstrates commitment to their respective roles. Accordingly, the Board recommends that shareholders approve the resolutions to be proposed at the 2013 AGM relating to the election of the Directors.

The current policy is for Non-executive Directors to serve on the Board for nine years, with review at the end of three and six years, subject to mutual agreement and annual performance evaluation.

### Directors' indemnities

To the extent permitted by section 236 of the Companies Act 2006, the Directors have been granted Qualifying Third Party Indemnity Provisions by the Company. The indemnities for Directors of Alent plc have been in force since the date of appointment on 31 October 2012.

### Directors' conflicts of interest

The Board has a formal system in place for Directors to review regularly their interests and to deal with situations where a Director reports any conflicts of interest. Any conflict situation reported to the Chairman and the Company Secretary is considered by the Board based on its particular facts. Any authorisations given to a Director who has a conflict situation are recorded in the Board minutes and in a register of Directors' conflicts which is reviewed annually by the Board. The Board believes that the systems it has in place for reporting Situational Conflicts will operate effectively.

## ACCOUNTABILITY

### The Audit Committee

The membership of the Audit Committee is set out on page 53. The Audit Committee report, which summarises the terms of reference of the Audit Committee and describes its work in discharging its responsibilities, is set out on pages 53 to 55.

### Financial and business reporting

In its reporting to shareholders the Board recognises its responsibility to present a fair, balanced and understandable assessment of the Company's position and prospects. The Business Review on pages 14 to 25 sets out explanations for the basis on which the Company generates or preserves value over the longer term and the strategy for delivering the objectives of the Company.

### Directors' and Auditor's Responsibility

A statement of the Directors' responsibility for preparing the Annual Report and accounts is included on pages 74 to 75.

A statement by the Auditor, KPMG LLP, setting out its reporting responsibilities is included on page 78.

### Going concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly, they have adopted a going concern basis in preparing the financial statements of the Group and the Company.

### Risk management and assessment and internal control systems

The Board has overall responsibility for the establishment and maintenance of the Company's system of risk management and internal control, and for reviewing its effectiveness. This system is designed to manage, rather than eliminate, the risks facing the Company and safeguard assets. No system of internal control can provide absolute assurance against material misstatement or loss. The Company's system is designed to provide the Directors with reasonable assurance that any problems are identified on a timely basis and are dealt with appropriately. In accordance with the provisions of the Code, the Directors confirm that they have reviewed the effectiveness of the Company's system of internal control and that the necessary actions have been taken to remedy and control any control weaknesses identified during the year. Since the date of this review there have been no significant changes in internal controls or other matters which could significantly affect them. The key risks facing the Company are set out on pages 26 to 29.

There is a continuous process for identifying, evaluating and managing any significant risks faced by Alent. Company management operates a risk management process designed to identify the key risks facing each business and reports to the Board on how those risks are being managed. As a basis for this report, each of the Company's major business units produces a "risk map" which identifies their key risks and assesses the likelihood of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to a desired level. As a new company, the Board expects to further develop its risk management structure and processes during 2013, as well as its procedures, and embedded processes in respect of its Ethics, Health, Safety, Environmental and Sustainability activities. Current activities are described in the Corporate Social Responsibility Review, on pages 30 to 35. At Board level, the Chief Executive currently takes the lead on these matters.

The Board reviews the role of insurance and other measures used in managing risks across the Company, receives regular reports on any major issues that have arisen during the year and makes an annual assessment of how the risks have changed over the period under review. The Audit Committee assists the Board in reviewing the effectiveness of the Company's system of internal controls, including financial, operational and compliance controls, and risk management systems. The key features of the Company's system of internal controls include:

### Strategy and financial reporting

The Company operates a comprehensive strategic planning and forecasting process, with an annual budget approved by the Board. Monthly operating financial information is reported against this budget and key trends and variances analysed. Action is then taken as appropriate.

The Board will also use one of its meetings in 2013 specifically to consider and review the Company's strategy and its implementation, and its future prospects.

Company accounting policies and procedures are formulated and disseminated to all Company operations, covering the application of accounting standards and the maintenance of accounting records and key financial control procedures.

### Operational controls

Each operating company, including the Divisional and Corporate offices, maintains internal controls and procedures appropriate to its structure and business environment, whilst complying with Company policies on items such as the authorisation of capital expenditure, treasury transactions and the management of intellectual property.

In addition, the Company's financial reporting process, including the preparation of the Company's consolidated financial statements, incorporates the dissemination and use of common accounting policies and procedures and financial reporting software.

# Corporate Governance continued

The Board considers significant financing and investment decisions concerning the Company, including the giving of guarantees and indemnities, and monitors policy and control mechanisms for managing treasury risk.

### Reviewing the effectiveness of internal controls

The internal control system is monitored and supported by the Company's internal audit function. This function assists management and the Board in the effective discharge of their responsibility for internal control by conducting reviews of Alent's businesses and reporting objectively both on the adequacy and effectiveness of the system of internal control in place and as to whether those businesses are in compliance with applicable Company policies and procedures. The Audit Committee receives reports from the Company Head of Internal Audit on a regular basis and reports to the Board on the results of its review.

As part of the Board's process for reviewing the effectiveness of the system of internal control, it delegates the following matters to the Audit Committee to be carried out during the year:

- review of external and internal audit work plans;
- consideration of reports from management, internal audit and external audit on the system of internal control and any significant control weaknesses; and
- discussions with management on the actions taken on problem areas identified by Board members, in internal audit reports or in external audit management letters.

At the year-end, following the review by the Audit Committee of internal financial controls and of the processes covering other controls, the Board evaluates the results of the internal control and risk management procedures conducted by senior management. This includes a self-certification exercise by which senior financial and operational management throughout the Company certify the effectiveness of the system of internal controls within the businesses for which they are responsible, together with their compliance throughout the year with the Company's policies and procedures.

### Executive compensation and risk

All the independent Non-executive Directors serve on both the Audit and Remuneration Committees. They are therefore able to bring their experience and knowledge of the activities of each Committee to bear when considering the critical judgements of the other. This means that the Directors are in a position to consider carefully the impact of incentive arrangements on the Company's risk profile and to ensure the Company's remuneration policy and programme is structured so as to accord with the long-term objectives and risk appetite of the Company.

## RELATIONS WITH SHAREHOLDERS

The Board believes that it is a priority to communicate with shareholders and uses various methods to reach as many shareholders as possible. There are programmes for the Chief Executive, Finance Director and the Head of Investor Relations to meet with the Company's major institutional investors in the UK, the US and Continental Europe. The Board also seeks to ensure effective engagement with shareholders through the Company's regular communications, the AGM, as well as through Capital Markets Days to provide the Company's stakeholders with more detailed insight into the Company's future strategy and investment proposition and other investor relations activities.

In addition, the Chairman of the Remuneration Committee commenced, in the first quarter of 2013, meetings with key institutional shareholders and their representative bodies to discuss the proposals for the Company's new remuneration policy, and further meetings will be held during the year.

The Chairman has met with shareholders in the first quarter of 2013 and he, and also the Senior Independent Director, will each seek separate meetings with shareholders during the course of the year.

The Company's investor relations programme will be managed by the Chief Executive and Finance Director. The majority of meetings with investors will be led by them, but the Chairman, Senior Independent Director and other Directors will also be available to meet with significant shareholders as appropriate. At these meetings, investors will be offered the opportunity to meet with the Chairman or the Senior Independent Non-executive Director.

The Company will report its financial results to shareholders twice a year, with the publication of its Annual and Half-Yearly Financial Reports and will issue two further trading updates each year with the publication of its Interim Management Statements. In conjunction with these announcements, presentations or teleconference calls will be held with institutional investors and stock market analysts. Recordings of these will be made available on the Company's website **www.alent.com** along with hard copies of any presentation materials issued.

Regular updates on shareholder issues and discussions will be provided to the Board. Board members will continue to receive copies of significant analysts' notes issued on the Company. All Directors are expected to attend the Company's AGM, providing shareholders with the opportunity to question them about issues relating to the Company, either during the meeting or informally.

### Annual General Meeting

Communication with private shareholders is largely through the AGM, which is held at a central London location.

Shareholders are given the opportunity to ask questions of the Board and the Chairman of each Board Committee during the AGM and to meet the Directors informally. Separate resolutions are proposed at the AGM on a poll for each item of business and shareholders are asked to vote "for", "against" or "vote withheld" on each resolution. Votes are counted and an announcement confirming whether each resolution was passed at the AGM is made through the London Stock

Exchange and can be viewed on the Alent website, together with a summary of the number of votes cast in respect of each resolution. The majority of shareholders have elected to access the Annual Report and other shareholder documents online via the Alent website rather than receiving a copy by post.

## AUDIT COMMITTEE REPORT

### Members

Mark Williamson (Committee Chairman)
Dr Emma Fitzgerald
Nöel Harwerth
Jan Oosterveld

The Audit Committee members are the independent Non-executive Directors, other than the Board Chairman. The Audit Committee is chaired by Mr Williamson, a qualified accountant. The Code requires the Board to be satisfied that at least one member of the Committee has recent and relevant financial experience, and the Board considers that Mr Williamson possesses the requisite financial experience to meet this requirement. The Board also considers that the Audit Committee members together possess the necessary commercial, financial and audit expertise to help them assess effectively the complex accounting, audit and risk issues they have to address.

At the invitation of the Audit Committee Chairman, the non independent Non-executive Director Lars Förberg, the Chairman of the Company, the Chief Executive, the Finance Director and the Company's Auditor, KPMG LLP, will regularly attend meetings. Other executives, including in particular the Group Financial Controller and the Head of Internal Audit, will be invited to attend as and when appropriate. It is envisaged that the Audit Committee will meet regularly with the Company's External Auditor and the Company Head of Internal Audit without any executives being present.

The Audit Committee operates under formal terms of reference that will be reviewed on a regular basis. These terms of reference, which are available on the Company's website, **www.alent.com**, authorise the Committee to obtain outside legal or other independent professional advice at the cost of the Company and to secure the attendance at Audit Committee meetings of other parties with relevant experience and expertise should it be considered necessary.

The Chairman of the Audit Committee reports the outcome of the Audit Committee meetings to the Board and all members of the Board receive the agenda, papers and minutes of Audit Committee meetings.

### Role and responsibilities

The primary role and responsibilities of the Audit Committee are:

- monitoring the integrity of the Company's Half-Year and Annual Financial Statements, the Interim Management Statements and any other formal announcements relating to the Company's financial performance;
- reviewing the process whereby the Board assesses the effectiveness of the Company's internal controls and risk management systems;
- establishing and reviewing procedures for detecting fraud, and systems and controls for the prevention of bribery, along with overseeing the Company's arrangements for employees to raise concerns about possible wrongdoing in financial reporting or other matters;
- monitoring and reviewing the effectiveness of the Company's internal audit function;
- monitoring and reviewing the Auditor's independence, objectivity and effectiveness, taking into account professional and regulatory requirements;
- making recommendations to the Board on the appointment and dismissal of the Auditor and approving the remuneration and terms of engagement of the Auditor; and
- helping to strengthen the independent position of the Auditor by providing a direct channel of communication between it and the Non-executive Directors.

The Committee's members met informally, including with the Auditor, prior to the Company's listing on 19 December 2012 to review and where necessary approve various matters relating to the Demerger. No Audit Committee meetings were held between 19 and 31 December 2012.

The Audit Committee expects to discharge its responsibilities as follows:

- review the Company's Half-Yearly and Annual Results Announcement/Annual Report and Accounts, respectively. In doing so, the Committee will receive reports from management on significant aspects of the Company's financial statements, including matters requiring significant management judgement, asset impairment valuation, amounts reported at fair value, off-balance sheet items and contingent liabilities, and reports from the Auditor identifying any accounting or judgemental issues thereon requiring its attention;
- receive reports from the Company Head of Internal Audit covering, amongst other things, the work undertaken by the internal audit function and management responses to proposals made in the audit reports issued by the function during the year. The Committee will also review the results of an assessment which will be undertaken of the performance of the internal audit function and the Committee will review and approve the internal audit plan, submitted by the Company Head of Internal Audit;
- review periodically the Auditor's control findings;
- review the results of an assessment which will be undertaken of the performance of the Auditor, based upon feedback received from the Company's corporate and divisional finance management;
- review and agree the audit plan presented by the Auditor, which will detail the approach and scope of the work to be undertaken and the level of fees to be charged;

# Corporate Governance continued

- review the risk management process operated by management designed to identify the key risks facing each business and how those risks were being managed;
- review reports from management which address the appropriateness of the production of the Company financial statements on a going concern basis;
- review the Company's procedures for the identification, management and control of specific areas of risk which impact the Group and the Company; and
- as a matter of routine, the Audit Committee will be presented with information on any significant litigation involving the Company.

## Appointment of Auditor

The Audit Committee is responsible for making recommendations to the Board in relation to the appointment, reappointment and removal of the Auditor. In undertaking this duty, the Committee takes into consideration a number of factors concerning the Auditor and the Company's current activity, including:

- the quality both of reports provided by the Auditor to the Audit Committee and the Board, and of advice given;
- the level of understanding demonstrated of the Company's businesses;
- the independence of the Auditor, in light of the provision of non-audit services;
- the objectivity of the Auditor's views on the controls throughout the Company;
- its ability to coordinate a global audit, working to tight deadlines;
- the cost-competitiveness of the Auditor in relation to the audit costs of comparable UK companies;
- the tenure of the incumbent Auditor; and
- the periodic rotation of the senior audit management assigned to the audit of the Company.

In addition, the Audit Committee considers external reviews of the performance and quality of the Auditor, including:

- the Annual Report issued by the Audit Inspection Unit of the Financial Reporting Council on the work of the Auditor; and
- the Auditor's own annual Transparency Report.

KPMG LLP has been appointed as the Company's Auditor. The Company, at a time considered appropriate, will undertake a review of the ongoing provision of audit services with a view to complying with the Code requirement to put the external audit contract out to tender at least every ten years. The Audit Committee is recommending the Auditor for reappointment at the AGM in 2013.

The terms on which the Auditor is engaged do not include any contractual obligations which would prevent the Directors appointing a different audit firm should this be considered appropriate.

## Independence and objectivity of Auditor

The Audit Committee is cognisant of the need to ensure that the independence and objectivity of the Auditor is continually maintained. It has put in place safeguards to ensure that the independence of the external audit is not compromised. These safeguards include:

- seeking ongoing confirmation that the Auditor is independent of the Company in its own professional judgement; and
- considering all the relationships between the Auditor and the Company, including those relating to the provision of non-audit services and whether these impair, or appear to impair, the Auditor's judgement or independence.

The Audit Committee monitors the other services being provided to the Company by the Auditor. The Company has a policy governing the Company-wide conduct of non-audit work by the Auditor to ensure that this does not impair its independence or objectivity. The Auditor is prohibited from performing services where it:

- may be required to audit its own work;
- would participate in activities that would normally be undertaken by management;
- is remunerated through a "success fee" structure; or
- acts in an advocacy role for the Company.

The policy sets out the categories of work that the Auditor is prohibited from undertaking. Other than these, the Company does not impose an automatic prohibition on the Auditor undertaking non-audit work. The Auditor is eligible for selection to provide non-audit services that are not, or are not perceived to be, in conflict with Auditor independence, provided it has the skill, competence and integrity to carry out the work in the best interests of the Company.

Recruitment to the Company of any new employee who had been employed by the Auditor in the last five years requires the approval of the Audit Committee.

Proposals for any non-audit related fees which the Company is intending to pay to the Auditor are presented to the Audit Committee. Any individual assignment where the fee is likely to be in excess of £30,000 must be pre-approved by the Audit Committee. Where appropriate, services are tendered prior to awarding work to the Auditor. Details of the amounts paid to the Auditor during the year for audit and other services are set out in note 7 on page 91.

## Internal audit

The Company's internal audit function operates on a global basis. The Company Head of Internal Audit is responsible for developing the function, within the framework of common Company policies and standards, and for carrying out assignments in accordance with an annual audit plan approved by the Audit Committee. In 2013, it is proposed that 27 internal audit assignments be undertaken covering one-third, or approximately 30%, of the applicable businesses as required by the Audit Charter. The Company Head of Internal Audit reports directly to the Audit Committee Chairman with functional responsibility to the Chief Executive. The Audit Committee receives reports from the Company Head of Internal Audit and reports to the Board on the results of its review.

### Employee helpline

This is an independent and confidential service through which employees worldwide may register any concerns about any incorrect or irregular practices they perceive in Alent's workplaces. The helpline is operated 24 hours a day, seven days a week, by an organisation that specialises in the provision of such services. It can be contacted by phone, email or via a designated website. Translation facilities are available for those for whom English is not their first or preferred language.

### Approach to anti-bribery and corruption training

The Company's Code of Conduct and its policies on anti-bribery and corruption require that employees and others working on behalf of the Company do not engage in any form of bribery or corruption.

Our anti-bribery and corruption compliance programme will be refreshed and relaunched throughout the Company and will be implemented through a targeted face-to-face training programme. An e-learning module will be rolled out globally. New employees, as relevant, will go through the training as part of their induction process.

The compliance programme will include undertaking risk assessments and engaging with others working on behalf of the Company to ensure that their standards comply with the Company's policies.

On behalf of the Audit Committee

**Mark Williamson**
Chairman of the Audit Committee
28 March 2013

## REMUNERATION COMMITTEE REPORT

### Members

Noel Harwerth (Committee Chairman)
Dr Emma Fitzgerald
Jan Oosterveld
Mark Williamson

The Remuneration Committee members are the Independent Non-executive Directors excluding the Board Chairman. The Committee's principal roles are to set the appropriate remuneration for the Chairman, the Executive Directors and the Company Secretary, and to monitor the levels and structure of remuneration below Board level. Further details of the Remuneration Committee and its activities are provided in the Directors' Remuneration Report on pages 56 to 69. The Chairman of the Remuneration Committee reports the outcome of Committee meetings to the Board.

## NOMINATIONS COMMITTEE REPORT

### Members

Peter Hill (Committee Chairman) and the Non-executive Directors.

The Nominations Committee advises the Board on appointments to, and retirements and resignations from, the Board, and reviews the Company's succession plans. The members of the Nominations Committee are the Chairman, and the Non-executive Directors. The Committee meets as and when required and is chaired by the Chairman or a Non-executive Director. The Chairman would not act as Chairman of the Nominations Committee where it was dealing with the appointment of his successor. Formal meetings will be held to consider standing items of business; there is also expected to be a significant level of ad hoc discussion between members of the Nominations Committee, particularly when a recruitment exercise is taking place.

When considering the appointment of new Directors, the Nominations Committee will draw up a specification, taking into consideration the diversity of the Board, the balance of skills, knowledge and experience, the independence of Board members and the ongoing requirements of the Company. The Nominations Committee's foremost priority will be to ensure that the Company has the best possible leadership. Its prime responsibility is to ensure the strength of the Board. Board appointments will be made on merit against objective criteria, selecting the best candidate for the post.

The Nominations Committee will utilise, where appropriate, the services of executive search firms to identify appropriate candidates and will only use those firms that have adopted the Voluntary Code of Conduct addressing gender diversity and best practice in search assignments.

Wherever possible, the Nominations Committee will arrange for all Directors to meet with the preferred candidate. The Nominations Committee will make recommendations for each appointment to the full Board. Care will be taken to ensure that all proposed appointees have sufficient time available to devote to the role and do not have any conflicts of interest.

The Nominations Committee will review the Company's succession plans for members of the Board. The Board as a whole also considers this subject. Both of Alent's divisions will submit detailed succession plans in respect of senior divisional executives to the Board for review each year. The Board also considers succession planning for senior corporate executives.

The Nomination Committee will also consider diversity generally across the Company. It is the Company's aim to maintain an appropriate level of diversity on the Board to reflect the diverse nature of the Company's operations, and to increase the level of diversity in executive management below Board level.

The Board fully supports the recommendations of the Davies Report entitled "Women on Boards".

The Board actively seeks to meet with key executives throughout the Company so as to gain a greater understanding of the breadth and depth of management talent. This enables members of the Committee to adopt a more informed approach to succession planning.

The Chairman of the Nominations Committee reports the outcome of Nominations Committee meetings to the Board.

On behalf of the Nominations Committee

**Peter Hill, CBE**
Chairman of the Nominations Committee
28 March 2013

By Order of the Board

**Simon O'Hara**
Company Secretary
28 March 2013

# Remuneration Report

Noël Harwerth, Chairman of the Remuneration Committee

## DEAR SHAREHOLDER

### INTRODUCTION

I am writing to you as the first Chairman of the Remuneration Committee of Alent plc ("Alent"), which began trading on the London Stock Exchange on 19 December 2012.

As outlined earlier in this Annual Report, Alent was formed following the demerger of Cookson Group plc ("Cookson"). Alent's shares were admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities on 19 December 2012. Consequently, Alent is now a separately listed leading global supplier of advanced surface treatment, plating chemicals and electronics assembly materials.

This report covers:

- the remit and composition of the Remuneration Committee;
- details of payments and outstanding awards/entitlements that were made to Executive Directors during 2012 under the Cookson Executive Director remuneration arrangements; and
- details of the current and forward looking Alent remuneration policy and its proposed implementation, together with the Executive Director remuneration arrangements and policy for 2013.

Due to Alent being separately listed only for the last 13 days of 2012, from 19 December to 31 December (being the period to which this report formally relates), we are required to disclose pay, annual incentive and other data only in respect of Alent, which is generally for the 13 days only, and from 31 October 2012 in respect of the three new Non-executive Directors who were not on the Cookson board, with no historical comparisons. This report includes that data as we are required to do. Shareholders should also be mindful of the fact that Alent's Remuneration Committee held no formal meetings in 2012, and its first formal meeting was in January 2013.

In terms of the Company's overall remuneration policy for 2013, the remuneration structure for Executive Directors and other senior managers aims to:

- be sufficiently competitive to attract and retain high calibre and experienced executives, while reflecting the international complexity of the Company's business and operations;
- strongly support the Company's strategy and long-term corporate success, having due regard to environmental, social and governance issues within the Company's overall risk profile;
- align management's interests with those of shareholders; and
- foster a high performance culture, with a substantial portion of remuneration being performance linked.

The Company aims to provide median total remuneration levels for target performance and up to upper quartile total remuneration levels for superior performance. This will be judged against FTSE 250 companies and relevant international sector-specific companies to reach a rounded judgement. The Alent Prospectus disclosed the remuneration of the Executive Directors of Alent at the time of the demerger, comprising base salary, annual incentive, intended participation in the new Alent Share Plan (a long-term incentive share plan for Executive Directors and other selected executives) and retirement and other benefits. The Demerger, on the terms set out in the Alent Prospectus which contained these details (a copy of which can be found on the Company's website), together with the Alent Share Plan which was put as a separate resolution to be voted on, were both approved by Cookson shareholders.

The Company is committed to open and transparent dialogue with its shareholders on remuneration as well as other governance matters. As a matter of course the Remuneration Committee will continue to consult with key institutional shareholders and various representative bodies about the pay and incentive arrangements of the Company's Executive Directors. Indeed, during the Demerger process, the views of Cookson's largest shareholders were sought on a number of matters, including in relation to the then proposed remuneration policy, structure and positioning of Alent, while earlier this year I met with a number of Alent's shareholders to begin the dialogue process and answer shareholders' questions. The views of these shareholders were, on the whole, very supportive and we look forward to a continuing dialogue on both the new Alent business, and what we need to do in respect of overall remuneration practices for our Executive Directors and the Company as a whole. I hope you will be able to support the Committee's report at this year's Annual General Meeting.

Yours sincerely,
**Noël Harwerth**
Chairman, Remuneration Committee
28 March 2013

## THE REMUNERATION COMMITTEE

The primary role and responsibilities of the Remuneration Committee are:

- setting the appropriate remuneration for the Chairman, the Executive Directors and the Company Secretary;
- recommending and monitoring the level and structure of remuneration for senior management, being the first layer of management below Board level; and
- overseeing the operation of any executive share incentive plans.

A copy of the Remuneration Committee's Terms of Reference is available on the Company's website **www.alent.com**

## COMPOSITION OF THE REMUNERATION COMMITTEE

The current members of the Remuneration Committee are Independent Non-executive Directors, namely Dr Emma Fitzgerald, Jan Oosterveld, Mark Williamson and Noël Harwerth, who also chairs the Remuneration Committee. Each of the members of the Remuneration Committee was appointed as a Director of the Company on 31 October 2012 and is independent. The Company Secretary acts as Committee Secretary. The Chairman, Chief Executive and any other Directors are invited to attend Committee meetings as appropriate but do not participate in discussions of their own remuneration.

## ADVICE PROVIDED TO THE REMUNERATION COMMITTEE

In formulating its policies and deciding individual remuneration levels, the Remuneration Committee is advised by the Chief Executive and the Company Secretary, by the external advisers Towers Watson ("Towers"), and the law firm Clifford Chance LLP ("CC"). Towers has been appointed directly by the Remuneration Committee to provide advice on executive remuneration matters, including remuneration structure and policy, updates on market practices and trends, and guidance on the implementation and operation of long-term incentive plans. Towers has also provided the Remuneration Committee with remuneration benchmarking data for certain executives. CC provides advice on the drafting and operation of the Alent Share Plan and other executive or employee share arrangements operated by the Company from time to time. Towers is a signatory to the Remuneration Consultants Group Code of Conduct in relation to Executive Remuneration Consulting in the UK.

Aon Hewitt (the parent company of NewBridgeStreet (NBS), a firm of remuneration consultants) provides administration and actuarial services in relation to the Company's pension plans and NBS provides share award valuation advice to the Company.

The Remuneration Committee does not believe that the provision of any of these services to the Company compromises the independence or integrity of the advice that it receives from Towers, Aon Hewitt and CC.

## ACTIVITIES OF THE REMUNERATION COMMITTEE

Given that the Demerger did not become effective until 19 December 2012, the Remuneration Committee did not meet during the period under review. However, the Remuneration Committee expects to meet at least three times in 2013 to consider such matters as:

- salary review proposals for the Executive Directors and senior management;
- reviewing achievement against the performance targets, and approving payouts, in respect of the annual incentive arrangements;
- setting performance targets and approving the structure of the annual incentive arrangements;
- considering the Company's performance against the performance conditions applicable to the Cookson awards rolled over into awards over Alent shares, and authorising the vesting of these awards where relevant;
- setting the performance conditions and authorising the grant of awards under the Alent Share Plan;
- receiving feedback on the Remuneration Committee Chairman's meetings with key institutional shareholders regarding the Company's remuneration policy and practice, and, in the light of this, advice received from the external advisers regarding trends in remuneration practice and governance, discussing the Company's approach to executive remuneration and reviewing whether any changes should be made;
- reviewing the Remuneration Committee's Terms of Reference, and recommending any amendments to the Board for approval; and
- reviewing and approving the 2012 Directors' Remuneration Report.

# Remuneration Report continued

## EXECUTIVE DIRECTOR ANNUAL INCENTIVE AND LONG TERM INCENTIVE 2012 ENTITLEMENTS PURSUANT TO PRE-DEMERGER REMUNERATION ARRANGEMENTS OPERATED BY COOKSON

### ANNUAL INCENTIVES (COOKSON)

For the financial year 2012, the Executive Directors' annual incentives were based on Cookson Group adjusted operating profit performance, with an adjustment based on Cookson's working capital performance to focus greater attention on cash flow performance. The effect of the latter was to reduce the level of any payout that the Executive Directors could achieve by up to 10% if specified working capital targets were not attained. The adjuster could increase the level of payout by up to 10%, but not above the usual plan maximum. Mr Butterworth's annual incentive was assessed solely against this criterion, whilst half of Mr Corbett's annual incentive was assessed against this criterion and the remainder was based upon the divisional trading profit of the then Performance Materials division adjusted for performance against a key operating cash flow target. Their maximum incentive potential was 100% of salary.

For 2012, the relevant performance resulted in the following annual incentive payments for Messrs Corbett (Chief Executive) and Butterworth (Interim Finance Director), who were both Directors during the period:

| Name | Measure | Weighting | Target Performance* | Achieved (% of salary) | Incentive Paid (% of salary) |
|---|---|---|---|---|---|
| Steve Corbett | Group Adjusted earnings | 50% | £207.1m | 0% | 0% |
| Steve Corbett | Performance Materials Trading Profit | 50% | £109.2m* | 8.7% | 8.7% |
| Mike Butterworth | Group Adjusted earnings | 100% | £207.1m | 0% | 0% |

* Adjusted earnings and profits

An Annual Incentive equivalent to 8.7% of base salary will therefore be paid to Mr Corbett in respect of 2012. This annual payment is reported in the Directors' remuneration table on page 67. Mr Butterworth was not eligible for an annual incentive.

### LONG TERM INCENTIVES (COOKSON)

The demerger did not result in early vesting of awards held by Executive Directors under the Cookson Long Term Incentive Plan (Cookson LTIP).

#### 2010 Cookson LTIP Award

In the case of the awards made to Executive Directors in 2010 under the Cookson LTIP where the performance period was due to end on 31 December 2012, the period was shortened very slightly, to end immediately before the Demerger Effective Time, so that performance was measured purely in relation to Cookson's performance — being relative Total Shareholder Return (TSR) performance and growth in headline EPS (50% each). These awards are due to vest on 7 April 2013 and were rolled over to become awards over a combination of Alent and Vesuvius plc shares in the same combination that applied to Cookson shareholders under the terms of the Demerger. This reflects the fact that these awards relate to historic Cookson performance and not to the future performance of Alent or Vesuvius.

The shortened performance period mentioned above for 2010 awards ended on 18 December 2012. Cookson's TSR performance during this three-year performance period was assessed against the comparator group (FTSE 250 excluding investment trusts) and it was determined that Cookson's performance was between the median and the upper quintile, a level which would result in a 17.7% out of a maximum 50% vesting. In addition, Cookson's annual compound headline EPS growth was assessed for the period as being over 10% above RPI, a level which would result in 50% out of a maximum 50% vesting. Prior to the vesting of any award, as an additional hurdle, vesting must be justified by the underlying financial performance of Cookson over the performance period. It has been concluded that the vesting of the 2010 Cookson LTIP awards is justified by the underlying financial performance of Cookson. Accordingly, 67.7% of the Cookson 2010 LTIP awards will vest on 7 April 2013.

#### 2011 and 2012 Cookson LTIP Awards

In the case of the grants made to Executive Directors in 2011 and 2012 under the Cookson LTIP, these awards over Cookson shares were rolled over to become awards over Alent shares of equivalent value. Performance will still be measured over a three-year period, but by reference to Cookson performance up to the Demerger Effective Time and by reference to Alent performance thereafter to the end of the period. The awards continue to be subject to the terms and conditions of the existing Cookson LTIP, save that the relevant company (and relevant remuneration committee) is Alent instead of Cookson.

The vesting of the awards, when originally granted, was based on Cookson's performance against specified performance conditions measured over a three-year period. Vesting of 50% of shares awarded was based upon Cookson's three-year TSR performance relative to that of the constituent companies of the FTSE 250, excluding Investment Trusts, and 50% on EPS growth over the three-year period. The two measures operated independently.

The new Alent targets for measuring performance for the 2011 and 2012 Cookson LTIP awards, following the Demerger, is now as follows:

As regards the EPS target, the currently disclosed Cookson headline EPS threshold and maximum vesting targets for the final year of the relevant three-year performance period have been split between Alent and Vesuvius by reference to their respective trading profit contributions to Cookson's total 2012 trading profit such that the new Alent and Vesuvius targets aggregate to the currently disclosed Cookson targets. The respective Alent adjusted EPS values as reported for the final year of the three-year performance period will then be compared with these new threshold and maximum targets to determine the vesting outcome.

Vesting of 50% of Perfomance and Matching Share Awards under the 2011 LTIP awards is based on adjusted EPS growth in accordance with the following schedule:

| Adjusted EPS for 2013 financial year | Performance Shares Vesting Percentage | Matching Shares Vesting Ratio (Matching Shares: Investment Shares) |
|---|---|---|
| Less than 33.4 pence | 0% | 0 |
| 33.4 pence | 12.5% | 0.25 : 1 |
| 40.1 pence | 50% | 1.125 : 1 |
| Between 33.4 pence and 40.1 pence | Pro rata between 12.5% and 50% | Pro rata between 0.25 : 1 and 1.125 : 1 |

Vesting of 50% of Perfomance and Matching Share Awards under the 2012 LTIP awards is based on adjusted EPS growth in accordance with the following schedule:

| Adjusted EPS for 2014 financial year | Performance Shares Vesting Percentage | Matching Shares Vesting Ratio (Matching Shares: Investment Shares) |
|---|---|---|
| Less than 34.6 pence | 0% | 0 |
| 34.6 pence | 12.5% | 0.25 : 1 |
| 42.7 pence | 50% | 1.125 : 1 |
| Between 34.6 pence and 42.7 pence | Pro rata between 12.5% and 50% | Pro rata between 0.25 : 1 and 1.125 : 1 |

As regards the TSR target, Cookson's TSR growth from the start of the relevant three-year performance period up to the time of the Demerger will be determined and added to the TSR growth of Alent from the Demerger date to the end of the three-year performance period. This aggregate TSR growth will then be ranked against the TSR of the relevant comparator group and the resulting vesting outcome will be calculated against the TSR performance schedule in the Cookson LTIP.

### Cookson Deferred Bonus Share Plan (Cookson DBSP)

No Executive Directors of Alent hold any Cookson DBSP awards.

## REMUNERATION POLICY FOR EXECUTIVE DIRECTORS FOR 2013

The remuneration policy of the Company aims to establish a remuneration structure for Executive Directors and other senior managers which:

- is sufficiently competitive to attract and retain high calibre and experienced executives, while reflecting the international complexity of the Company's business and operations;
- strongly supports the Company's strategy and long-term corporate success, having due regard to environmental, social and governance issues within the Company's overall risk profile;
- aligns management's interests with those of shareholders; and
- fosters a high performance culture, with a substantial portion of remuneration being performance linked.

In formulating remuneration policy, the Remuneration Committee has regard to the international scale and nature of the Company's operations and takes into consideration the requirements of the UK Corporate Governance Code and guidelines issued by its leading shareholders and bodies such as the Association of British Insurers and the National Association of Pension Funds. The Remuneration

# Remuneration Report continued

Committee takes into account the pay and employment conditions of other Company employees when determining Executive Directors' remuneration, particularly when determining base salary increases.

Given that the Executive Directors' current remuneration arrangements were agreed on a confidential basis before the Demerger was announced, so as to be disclosed in the Alent Prospectus, it was not possible to carry out an internal employee consultation. In the case of Mr Corbett, this was a promotion and in the case of Mr Egan, this was a new hire — with the result that external comparisons and benchmarks were used. It was not a case of comparing the new salaries with any more broadly based salary increases given across the Company. However, this data, and these comparative measures, will be included in next year's Remuneration Report.

The base salaries and the overall incentives and remuneration structure for the Executive Directors at the time of the Demerger were described in the Alent Prospectus.

The Remuneration Committee also obtains information on the remuneration paid for comparable roles at other companies, in order to provide a point of reference for determining remuneration policy.

The Remuneration Committee is aware of the need to ensure that the remuneration policy is firmly linked to the Company's strategy, including its risk management philosophy. As all Remuneration Committee members also serve on the Audit Committee, each Committee benefits from the Directors' experience on the other. This is particularly relevant when the Remuneration Committee is considering matters such as the Company's achievement of performance conditions and the implications for the Company's risk profile of the award of incentives under the Company's remuneration programmes. The Remuneration Committee considers the Company's executive remuneration policy and incentive structure to be compatible with the Company's risk management and internal control systems.

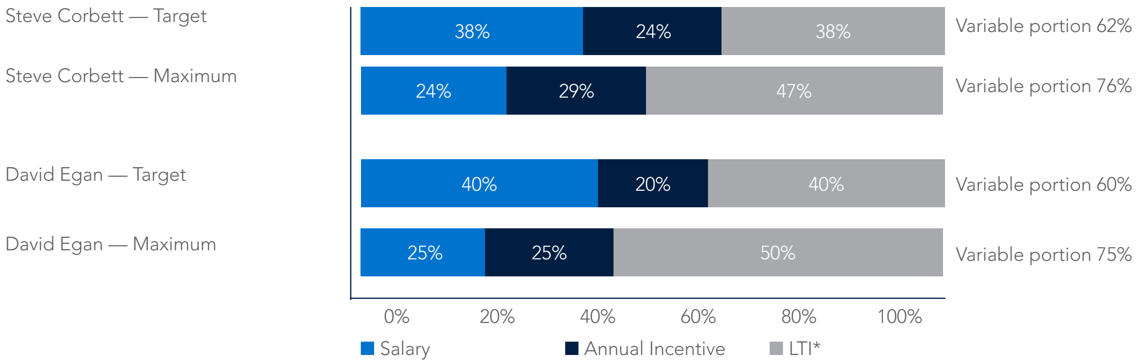
The Board's intention is that remuneration is linked to strategic objectives and the delivery of superior performance, over both the medium and longer term. In addition to base salary, pensions and other benefits, the two key incentives for executives are the annual incentive plan and the long-term plans. The Board's objective is to provide long-term value creation for shareholders, both absolute and relative, while also delivering sustainable short and longer term profits, earnings and cash flow performance. The Company's strategy to achieve these objectives is to focus on high growth end-markets, with a continuing pipeline of innovative and superior new products driven by an exceptionally strong R&D capability, backed by a clear focus on servicing customers through a value-adding OEM sales strategy, an efficient global footprint and continuous improvement programmes in its manufacturing and other processes. In addition, the Committee, in supervising the incentive schemes, is mindful to ensure that these do not encourage an inappropriate level of risk taking.

The remuneration policy is designed to incentivise and reward executives to deliver their contribution to the achievement of the Company's strategy, with a significant proportion of the Executive Directors' total remuneration being based on the variable, performance-related elements of the annual incentive and the Alent Share Plan. The performance conditions under these arrangements are designed to support the Company's strategic objectives, including a focus on growth and shareholder returns by targeting key business imperatives. For 2013 these are relative total shareholder return (TSR), defined as the increase in the value of a share, including reinvested dividends, and adjusted earnings per share (EPS). Targets are objective, auditable and transparent and as such are considered to be appropriate performance measures for management. To ensure that their interests are aligned with those of shareholders, Executive Directors are required to build a significant stake in the Company in accordance with the Company's share retention guidelines.

The Remuneration Committee will evaluate the efficacy of the Company's executive remuneration policy each year and commission formal reviews as it considers appropriate.

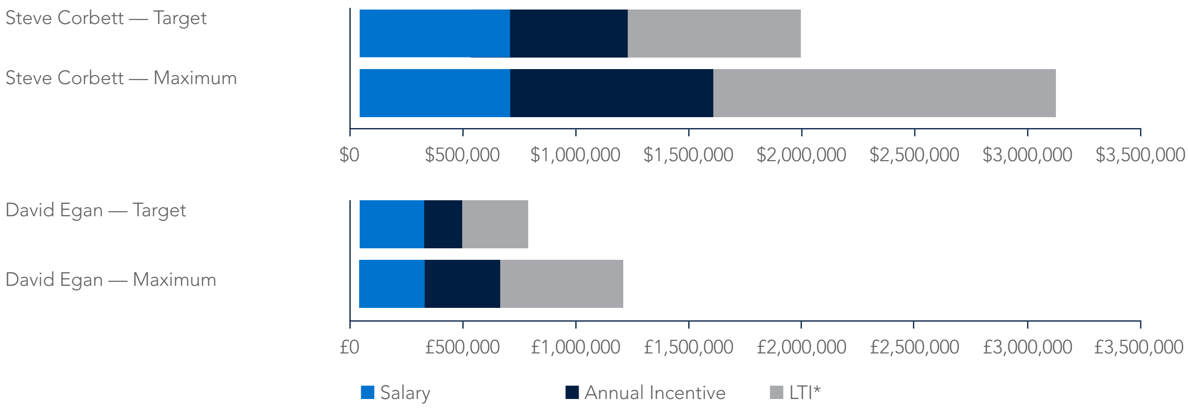
## FIXED AND VARIABLE REMUNERATION FOR 2013

The following illustrates the balance between fixed and variable remuneration for the Executive Directors based on the remuneration policy for 2013:




*Includes Performance and Matching Shares

The following illustrates the value of the Executive Directors' fixed and variable remuneration at on-target and maximum performance:




*Includes Performance and Matching Shares

OUR GOVERNANCE

# Remuneration Report continued

## SUMMARY OF KEY FEATURES OF THE EXECUTIVE DIRECTORS' REMUNERATION ARRANGEMENTS FOR 2013

As disclosed in the Alent Prospectus, the remuneration of the Executive Directors comprises base salary, annual incentive, long-term incentive and retirement benefits:

| Element of Remuneration | Purpose and link to remuneration policy | Maximum award | Key features |
|---|---|---|---|
| **Base salary** | Helps to recruit and retain key employees.<br><br>Reflects the individual's experience, role and contribution within the Company. | n/a | Paid in cash.<br><br>Normally reviewed by the Remuneration Committee annually. |
| **Annual Incentive** | Incentivises executives to achieve specific, pre-defined annual targets. For 2013, Annual Incentives are based primarily on the achievement of adjusted earnings per share targets for 2013, together with a deflator if working capital targets are not met. | 125% of base salary for the Chief Executive.<br><br>100% of base salary for the Finance Director. | Entire bonus amount payable in cash.<br><br>No deferral.<br><br>Subject to clawback. |
| **Alent Share Plan** | Flexible "umbrella plan". Aligns executives' interests with those of shareholders through the delivery of shares.<br><br>Rewards growth in shareholder value and earnings.<br><br>Aids retention of key executives over a three-year performance period. | Executive Directors eligible to receive, on an annual basis:<br><br>○ a performance share award with a face value of up to 200% of base salary; or<br>○ a market-price option with a face value of up to 300% of base salary.<br><br>The Remuneration Committee has the discretion to grant a mix of performance share awards and market-price options to an executive if the commercial value of the mixed grant is not higher than the commercial value that would have been otherwise provided to the executive under a single grant. | Participants are eligible to receive annual allocations of Performance Share Awards.<br><br>These awards are eligible to vest three years after their award date subject to the achievement of specified performance conditions.<br><br>Vesting of half of awards will be subject to the Company's TSR performance versus the FTSE 250 (excluding Investment Trusts), or a bespoke group of at least 20 comparator companies as determined by the Remuneration Committee prior to the date of grant.<br><br>Vesting of the remaining half of awards will be subject to the growth in the Company's EPS.<br><br>Prior to any vesting the Remuneration Committee has also stipulated that, as an additional hurdle, it needs to be satisfied that vesting has been justified by the underlying financial performance of the Company over the performance period.<br><br>The Remuneration Committee has the discretion to award participants the dividends accrued on any shares that vest.<br><br>Subject to clawback. |

| Element of Remuneration | Purpose and link to remuneration policy | Maximum award | Key features |
|---|---|---|---|
| **Retirement Benefits** | Helps to recruit and retain key employees.<br>Ensures income in retirement. | Executive Directors are eligible to receive a pension allowance of 30% of their base salaries. | Benefits are provided by way of an allowance which can be delivered in cash or as a payment to a defined contribution arrangement. |

The Executive Directors are also eligible to receive certain benefits in kind. These principally comprise company car allowances, life assurance and medical insurance.

## FURTHER DETAILS OF THE EXECUTIVE DIRECTORS' REMUNERATION ARRANGEMENTS FOR 2013

### BASE SALARY

Base salary levels reflect the individual's contribution and experience, the Company's financial performance, and the salaries paid in comparator companies. At the time of the Demerger, Mr Corbett's promotion was reflected in a salary increase of 20% due to his promotion to Chief Executive of the Company, his resultant changing role, and his increased responsibilities. Mr Corbett's salary is $750,000. Mr Egan's base salary is £310,000.

### ANNUAL INCENTIVE

The Executive Directors are eligible to receive an annual incentive calculated as a percentage of base salary and based on achievement of specified targets determined following consideration of the Company's financial budget and prior year actual financial results. The targets will be set to ensure that maximum bonuses are only paid for significantly exceeding expectations. There is no deferral of annual bonuses for Executive Directors.

Each year the Remuneration Committee will establish the financial performance criteria for the forthcoming year. These criteria will be set by reference to the Company's financial budget and prior year actual financial results. The target range will be set to ensure that maximum bonuses are only paid for significantly exceeding market expectations. The Remuneration Committee considers that the setting and attainment of these targets is important in the context of achievement of the Company's longer-term strategic goals.

The annual incentive has a threshold level of performance below which no award is paid, a target level at which Executive Directors are entitled to a payment equal to 50% of their respective base salary and a maximum performance level at which a maximum award is earned. Mr Corbett's maximum annual incentive potential is 125% of base salary and his target annual incentive potential is 62.5% of base salary. For Mr Egan, his maximum annual incentive potential is 100% of base salary and his target annual incentive potential is 50% of base salary.

The structure of the 2013 Annual Incentive plan for Messrs Corbett and Egan will be based primarily on the achievement of adjusted earnings per share targets for 2013, together with a deflator if working capital targets are not met.

### ALENT LONG-TERM INCENTIVES

**Summary**

The long-term incentives are awarded under the Alent Share Plan (the "Plan"), which was approved by Cookson shareholders at the time of the Demerger and rewards executives for delivering superior TSR, defined as the increase in the value of a share, including reinvested dividends, and EPS growth over a set period of time, and as such is intended to align executive remuneration with shareholders' interests. The Plan is structured as an "umbrella plan", which gives greater flexibility in terms of the awards which can be made, in line with current market practice. This means that the Company only needs to have one set of share plan rules to cover all its current and prospective discretionary share plan needs.

The Plan will permit awards to be granted as:

- performance share awards ("LTI");
- deferred share bonus awards;
- restricted share awards; and
- market-price options.

# Remuneration Report continued

### Eligibility and individual grant levels

For Executive Directors, awards granted within 12 months following the Demerger will be granted in the form of performance share awards. It is not intended to grant deferred share bonus awards or restricted share awards to Executive Directors, although David Egan will be awarded a one-off grant of restricted shares under the plan, to compensate him for the awards which he forfeited on leaving his previous employer. This award was calculated on 50% of his base salary, less the amount of his 2012 annual incentive award from his previous employer, referenced to the Alent share price on his date of joining. The resultant award is 23,909 Alent shares, with 50% vesting on 1 January 2014 and the remaining 50% vesting on 1 January 2015. The award will be issued immediately after the announcement of the annual results and subject to the rules of the Alent Share Plan (the "Alent Plan"), provided he had not given or received notice on each vesting date.

For the 12 month period after the Demerger, the Remuneration Committee shall have the discretion to consider the grant of different types of award including the utilisation of market price options, in which case any performance share awards will be reduced accordingly.

Executive Directors are eligible to receive, on an annual basis:

- a performance share award with a face value of up to 200% of base salary; or
- a market-price option with a face value of up to 300% of base salary.

The Remuneration Committee has the discretion to grant a mix of performance share awards and market-price options provided the commercial value of the mixed grants is not higher than the commercial value of an unmixed grant that would otherwise have been provided to the executive.

### Performance conditions for performance share awards

The vesting of performance share awards granted by the Company will be based on the Company's performance against specified performance conditions measured over a three-year period.

For performance share awards granted in 2013, the proportion of shares vesting will be based on the Company's performance against specified performance conditions. Vesting of 50% of shares awarded will be based upon the Company's three-year TSR performance relative to that of the constituent companies, the FTSE 250 excluding Investment Trusts (or a bespoke group of at least 20 comparator companies as determined by the Remuneration Committee) and 50% will be based on growth in adjusted EPS over a three-year period. The two measures will operate independently.

The details regarding the performance conditions for performance share awards to be granted in 2013 (threshold and maximum targets to determine the vesting outcome etc.) have not yet been finally determined. However, the proposed concepts and structure have been discussed with key institutional shareholders and their comments noted.

The Remuneration Committee will obtain independent external advice to assess whether the Company has met the TSR performance condition at the end of the relevant performance period and to confirm that the companies which make up the index and the measurement of the Company's performance are both in accordance with the rules of the Plan. Measurement of the Company's TSR takes place over a performance period commencing on the first day of the Company's financial year in which the award is granted. TSR is measured as the percentage increase in a return index for the Company and each comparator company between the beginning and end of the performance period. The return index at the beginning of the performance period is the average of the return index on each weekday in the three-month period prior to the start of the performance period. The same three-month averaging method is used to ascertain the return index at the end of the performance period. The companies are then ranked, in descending order, according to their TSR. If the Company is ranked at or above the median of the comparator group then a proportion of the awards is eligible to vest.

Adjusted EPS will be calculated on a consistent basis. Growth in adjusted EPS is the annualised percentage growth over the performance period. Adjusted EPS for the base year (i.e. the calendar year prior to the award date) is compared with the final year (i.e. the calendar year three years after the base year).

## CLAWBACK ARRANGEMENTS

The Executive Directors are subject to clawback arrangements. In the event that a misstatement is identified in the Company's consolidated financial statements which requires the restatement of a prior year's accounts in order to ensure compliance with the requirements of International Financial Reporting Standards or any applicable law, then such portion as the Remuneration Committee deems appropriate of any variable executive remuneration (including from both the annual incentive and the Plan and on an after tax basis) resulting from a measure of financial performance affected by the misstatement will be subject to clawback provisions.

## SHARE USAGE

Under the rules of the Plan the Company has the discretion to satisfy awards either by the transfer of existing shares or by the allotment of newly issued shares. The decision on how to satisfy awards is taken by the Board, which considers the most prudent and appropriate sourcing arrangement for the Company.

The Alent Share Plan complies with the current ABI guidelines on headroom which provide that overall dilution under all plans should not exceed 10% over a ten-year period in relation to the Company's issued share capital, with a further limitation of 5% in any ten-year period on discretionary schemes.

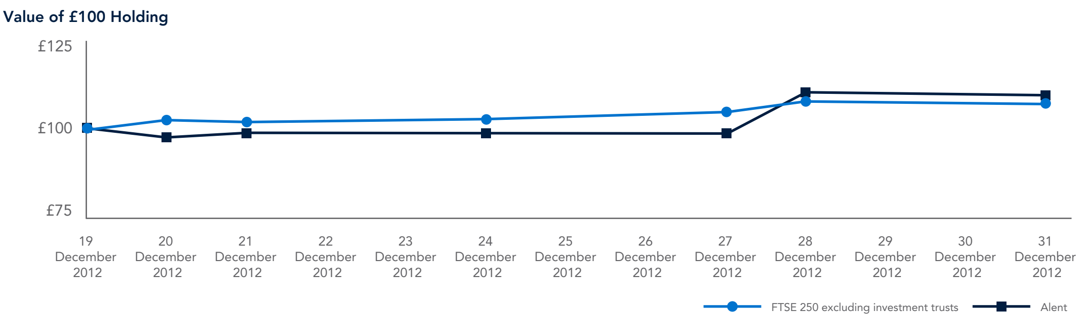
Details of the awards granted to Executive Directors and outstanding under the Cookson LTIP as at 31 December 2012 are given in note 28 to the consolidated financial statements and note 10 to the Company financial statements. No awards exist under the Alent Share Plan as at 31 December 2012.

## TOTAL SHAREHOLDER RETURN (TSR) GRAPH

Given that the Demerger did not become effective until 19 December 2012, it is not possible to produce a graph which compares the Company's TSR over the last five years with the return on an appropriate index (in compliance with the Large & Medium sized Companies and Groups (Accounts & Report) Regulations 2008). For completeness, and in accordance with the Regulations, the graph below does compare the Company's TSR over the short period from the Demerger to 31 December 2012 with the return on the FTSE 250 index (excluding Investment Trusts). This index has been chosen as the comparator index to reflect the size, international scope and diversity of the Company.

## HISTORICAL TSR PERFORMANCE

Growth in the value of a hypothetical £100 holding in Alent since inception compared to FTSE 250 excluding investment trusts (based on trading day spot values)




## DIRECTORS' CONTRACTS

The following paragraphs summarise the main terms and conditions of the contracts of the Directors:

## STEVE CORBETT

Steve Corbett is employed as Chief Executive Officer of the Company pursuant to the terms of a service agreement made with Alent Investments Limited dated 31 October 2012, which was assigned to Alent upon completion of the Demerger. Mr Corbett's appointment is terminable by the Company on not less than 12 months' written notice, and by Mr Corbett on not less than six months' written notice. The Company has the option to make a payment in lieu of part or all of the required notice period. Any such payment in lieu will consist of the base salary, pension contributions and value of benefits to which Mr Corbett would have been entitled for the duration of the remaining notice period, net of statutory deductions in each case, less $20,000. Half of this payment will be made in a lump sum, the remainder in six equal monthly instalments commencing in the month in which the midpoint of Mr Corbett's forgone notice period falls; if Mr Corbett finds a role paying equivalent or better base salary or fees, no further instalments shall be payable, and the value of any lesser new base salary or fees shall be deducted from any further instalments. Mr Corbett is subject to certain non-compete and non-solicitation covenants for a period of 12 months following the termination of his employment. The agreement is governed by the law of the State of Rhode Island, USA.

# Remuneration Report continued

## DAVID EGAN

David Egan was appointed as the Finance Director of the Company effective on 1 January 2013. He is eligible for the specific plans as outlined and approved by the Remuneration Committee. Mr Egan's appointment is terminable by the Company on not less than 12 months' written notice, and by Mr Egan on not less than six months' written notice. The Company has the option to make a payment in lieu of part or all of the required notice period. Any such payment in lieu will consist of the base salary, pension contributions and value of benefits to which Mr Egan would have been entitled for the duration of the remaining notice period, net of statutory deductions in each case. Half of this payment will be made in a lump sum, the remainder in six equal monthly instalments commencing in the month in which the midpoint of Mr Egan's foregone notice period falls; if Mr Egan finds a role paying equivalent or better base salary or fees, no further instalments shall be payable, and the value of any lesser new base salary or fees shall be deducted from any further instalments. Mr Egan is subject to certain non-compete and non-solicitation covenants for a period of 12 months following the termination of his employment. The agreement is governed by English law.

None of the Executive Directors' contracts contain any change of control provisions and they all contain a duty to mitigate should the Director find an alternative paid occupation in any period during which the Company must otherwise pay compensation on early termination. No Directors had any material interest in a contract of significance (other than service agreements) with the Company or any subsidiary company during the year.

## NON-EXECUTIVE DIRECTORS

The terms of Service of the Chairman and the other Non-executive Directors are contained in letters of appointment. Each Non-executive Director is appointed subject to their election at the Company's first Annual General Meeting and subsequent Annual General Meetings.

| | Non-executive Directors' annual fees £ | Date of appointment | Annual General Meeting at which current term is expected to expire/expired | Unexpired notice period |
|---|---|---|---|---|
| **Chairman (Non-executive Director)** | | | | |
| Peter Hill | 165,000 | 10 September 2012 | 21 May 2013 | 12 months |
| **Non-executive Directors** | | | | |
| Emma Fitzgerald | 45,000 | 31 October 2012 | 21 May 2013 | Not required |
| Jan Oosterveld | 45,000 | 31 October 2012 | 21 May 2013 | Not required |
| Noël Harwerth | 60,000 | 31 October 2012 | 21 May 2013 | Not required |
| Lars Förberg | 45,000 | 31 October 2012 | 21 May 2013 | Not required |
| Mark Williamson | 65,000 | 31 October 2012 | 21 May 2013 | Not required |
| **Total Non-executive Directors' Remuneration** | 425,000 | | | |

The base Non-executive Director fees were increased from £40,000 under Cookson to £45,000 under Alent. The additional £15,000 fee paid to both the Audit and Remuneration Committee Chairman and the additional £5,000 fee paid to the Senior Independent Director remained unchanged.

Other than the Chairman, none of the Non-executive Directors are entitled to receive compensation for loss of office at any time.

All Directors are subject to retirement, and election or re-election, in accordance with the Company's Articles of Association and all of the Directors now stand for re-election annually.

The Board sets the remuneration of the Non-executive Directors after considering the role and responsibilities of each Director and the practice of other companies. The Non-executive Directors do not participate in Board discussions on their own remuneration.

## EXTERNAL APPOINTMENTS

Executive Directors are permitted to hold positions as non-executive directors of other companies provided that these do not lead to conflicts of interest. The Board sanctions each such request on a case-by-case basis. Fees received are retained by the Executive Director concerned. From 19 to 31 December 2012, Mr Butterworth received fees of £1,177 for his role as non-executive director and Chairman of the Audit Committee of St Ives plc. Neither Mr Corbett nor Mr Egan hold outside appointments.

## PENSION ARRANGEMENTS

In accordance with their contracts, Messrs Corbett and Egan receive pension allowances of 30% of their base salaries to enable them to make their own pension provision as they may choose — or take as a salary supplement.

Prior to the Demerger, Mr Corbett participated in Cookson's US pension plans. Under the Cookson Electronics, Inc 401(k) Savings Plan, Cookson matched any contribution made by Mr Corbett up to 6% of cash compensation, and then paid an additional discretionary matching contribution of up to 7% of Mr Corbett's cash compensation each year. Under the Cookson Supplemental Savings and Retirement Plan for Executives, Cookson matched any contribution made by Mr Corbett up to 6% of cash compensation, and then paid an additional discretionary matching contribution of up to 7% of Mr Corbett's cash compensation each year. In addition Mr Corbett received a contribution of 9.1% of his cash compensation each year.

Mr Butterworth received no pension allowance from Alent plc between 19 and 31 December 2012.

Mr Egan received no pension benefits during the period.

## DIRECTORS' REMUNERATION

The following table details the remuneration payable to each Director in respect of the applicable periods during 2012 by Alent plc:

| | Base salary and Non-executive Directors' fees £ | Benefits in kind £ | Annual Incentive[5] bonuses £ | **2012 Total remuneration £** |
|---|---|---|---|---|
| **Chairman (Non-executive)** | | | | |
| Peter Hill[2] | 5,711 | — | — | **5,711** |
| **Executive Directors** | | | | |
| Steve Corbett[1] | 16,691 | 643 | 1,463 | **18,797** |
| Mike Butterworth[4] | — | — | — | **—** |
| **Non-executive Directors** | | | | |
| Emma Fitzgerald[3] | 1,558 | — | — | **1,558** |
| Lars Förberg | 7,673 | — | — | **7,673** |
| Noël Harwerth | 10,231 | — | — | **10,231** |
| Jan Oosterveld[3] | 1,558 | — | — | **1,558** |
| Mark Williamson | 11,083 | — | — | **11,083** |
| **Total Directors' Remuneration** | 54,505 | 643 | 1,463 | **56,611** |

1. Appointed as a Director of Alent plc on 10 September 2012 and continued to serve as a Director of Cookson Group plc until 31 October 2012.
2. Appointed as a Director of Alent plc on 10 September 2012 and continued to serve as a Director of Cookson Group plc until 19 December 2012.
3. Served as a Director of Cookson Group plc and appointed as a Director of Alent plc on 31 October 2012.
4. Mike Butterworth received no payment from Alent plc for his services as a Director.
5. Annual Incentive shown pro rata for the applicable period and were paid in March 2013.
6. The information in the above table is audited by the Company's Auditor.

# Remuneration Report continued

## SHARE PLAN AWARDS

### ALENT SHARE PLAN AWARDS

No awards were made in 2012 under the Alent Share Plan.

### COOKSON SHARE PLAN AWARDS

Details of the Executive Directors' awards under the Cookson Share Plan are shown in the table below:

### LTIP ALLOCATIONS

Details of Mr Corbett's and Mr Butterworth's allocation of shares under the Cookson LTIP are shown in the tables below:

**2010 LTIP Award (as adjusted for the Demerger from awards over Cookson shares into awards over shares in Alent plc and Vesuvius plc)**

| | Grant date and type of award | | Cookson Share allocations outstanding as at 31 Dec 2011 No. | Demerger Adjustments: Revised allocation over Alent shares No. | Demerger Adjustments: Revised allocation over Vesuvius shares No. | Total share allocations outstanding as at 31 December 2012: Alent shares No. | Total share allocations outstanding as at 31 December 2012: Vesuvius shares No. | Market price of shares on day before award (as adjusted for the Demerger) | Performance Period | Earliest vesting date |
|---|---|---|---|---|---|---|---|---|---|---|
| Mike Butterworth | 07/04/10 | Performance Shares | 54,522 | 54,522 | 54,522 | 54,522 | 54,522 | 280.53 | 01/01/10–31/12/12 | 07/04/13 |
| | | Matching Shares | 52,556 | 52,556 | 52,556 | 52,556 | 52,556 | 280.53 | 01/01/10–31/12/12 | 07/04/13 |
| Steve Corbett | 07/04/10 | Performance Shares | 54,166 | 54,166 | 54,166 | 54,166 | 54,166 | 280.53 | 01/01/10–31/12/12 | 07/04/13 |
| **Totals** | | | **161,244** | **161,244** | **161,244** | **161,244** | **161,244** | | | |

1. Mr Egan joined the Company on 1 January 2013 and is not subject to any awards in 2012.
2. The information in the above table is audited by the Company's Auditor.

**2011 and 2012 LTIP Awards (as adjusted for the Demerger from awards over Cookson shares into awards over shares in Alent plc)**

| | Grant date and type of award | | Cookson Share allocations outstanding as at 31 Dec 2011 No. | Cookson shares allocated during the year No. | Revised allocation over Alent shares No. | Total share allocations outstanding as at 31 Dec 2012 Alent shares No. | Market price of shares on day before award (as adjusted for the Demerger) | Performance Period | Earliest vesting date |
|---|---|---|---|---|---|---|---|---|---|
| Mike Butterworth | 01/04/11 | Performance Shares | 48,464 | — | 48,464 | 48,464 | 329.79 | 01/01/11–31/12/13 | 01/04/14 |
| | | Matching Shares | 91,234 | — | 91,234 | 91,234 | 329.79 | 01/01/11–31/12/13 | 01/04/14 |
| Steve Corbett | 01/04/11 | Performance Shares | 49,089 | — | 102,631 | 102,631 | 329.79 | 01/01/11–31/12/13 | 01/04/14 |
| Mike Butterworth | 05/04/12 | Performance Shares | — | 48,464 | 48,464 | 48,464 | 329.79 | 01/01/12–31/12/14 | 05/04/15 |
| | | Matching Shares | — | 39,525 | 39,525 | 39,525 | 329.79 | 01/01/12–31/12/14 | 05/04/15 |
| Steve Corbett | 05/04/12 | Performance Shares | — | 56,498 | 118,121 | 118,121 | 329.79 | 01/01/12–31/12/14 | 05/04/15 |
| | | Matching Shares | — | 106,444 | 222,544 | 222,544 | 329.79 | 01/01/12–31/12/14 | 05/04/15 |
| **Totals** | | | **188,787** | **250,931** | **670,983** | **670,983** | | | |

The information in the above table is audited by the Company's Auditor.

## DIRECTORS' INTERESTS

The beneficial interests of the Directors and their families in the ordinary shares of the Company as at 31 December 2012 were as shown below.

| Ordinary shares | 31 Dec 2012 Ordinary shares No. |
|---|---|
| Steve Corbett | 73,672 |
| Mike Butterworth | 457,622 |
| David Egan[4] | NIL |
| Peter Hill | 47,000 |
| Emma Fitzgerald | 6,000 |
| Lars Förberg | NIL |
| Noël Harwerth | NIL |
| Jan Oosterveld | 16,254 |
| Mark Williamson | NIL |

1. There were no changes to the interests of the Directors in the ordinary shares of the Company in the period from 1 January 2013 to 28 March 2013.
2. Full details of Directors' shareholdings and share allocations are given in the Company's Register of Directors' Interests, which is open to inspection at the Company's registered office during business hours.
3. Mr Förberg is Managing Partner of, and has a financial interest in, Cevian Capital which held just over 20% of Cookson's issued share capital on the date of his appointment to the Cookson Board and continued to hold an interest of just over 20% in Alent's issued share capital following the Demerger, and as at the date of this report. None of the other Directors, nor their spouses nor minor children, held non-beneficial interests in the ordinary shares of the Company during the year.
4. Appointed as a Director on 1 January 2013.
5. The information in the above table is audited by the Company's Auditor.

## SHAREHOLDING GUIDELINES

The Remuneration Committee encourages Executive Directors to build and hold a shareholding in the Company equivalent in value to at least one times gross base salary. For new Executive Directors, the target is to achieve this within a four year period.

As at 31 December 2012, using the Company's share price at 31 December 2012 of 308.8p, Steve Corbett held 73,672 shares in Alent, representing 47% of his base salary (gross, pre-tax). Mr Corbett also currently holds 53,672 shares in Vesuvius plc, a portion of which he has not been permitted to sell during the closed period.

On behalf of the Board

**Noël Harwerth**
Chairman, Remuneration Committee
28 March 2013

# Directors' Report

Simon O'Hara, Company Secretary

The Directors submit their Annual Report together with the audited accounts of the Group and of the Company, Alent plc, registered in England and Wales No.8197966, for the year ended 31 December 2012.

The Chairman's Letter, the What We Do section, the Where We Operate: Our Markets section, the Chief Executive's Statement, the Business Unit Review, the Financial Review, the Directors' Remuneration Report, the Corporate Governance Report, the Approach to Risk Management, the Approach to Corporate Social Responsibility, the Business Model and Strategy, the Key Performance Indicators and Board sections of the Annual Report, together with the information on financial risk management objectives and policies contained in notes 21 and 26 of the consolidated financial statements, are each incorporated by reference into, and form part of, this Directors' Report.

This Directors' Report also represents the management report for the purpose of compliance with DTR 4.1.8R of the UK Listing Authority disclosure rules.

## 2013 ANNUAL GENERAL MEETING

The AGM of the Company will be held at 10.00 am on Tuesday 21 May at the offices of UBS, 1 Finsbury Avenue, London, EC2M 2PP.

The notice of the 2013 AGM is contained in the circular to shareholders accompanying this Annual Report, together with an explanation of resolutions to be considered at the meeting.

## GOING CONCERN

Information on the business environment in which the Group operates, including the factors that are likely to impact the future prospects of the Group, is included in the Chief Executive's Statement and the Where we Operate: Our Markets section. The principal risks and uncertainties that the Group faces throughout its global operations are shown on pages 26 to 29. The financial position of the Group, its cash flows, liquidity position and debt facilities are described in the Financial Review. In addition, note 26 to the consolidated financial statements sets out the Group's objectives, policies and processes for managing its capital; financial risks; financial instruments and hedging activities; and its exposures to credit, market (both currency and interest rate-related) and liquidity risk. Further details of the Group's cash balances and borrowings are included in notes 14, 15 and 26 to the consolidated financial statements. The Directors have prepared cash flow forecasts for the Group for a period in excess of 12 months from the date of approval of the 2012 financial statements. These forecasts reflect an assessment of current and future end-market conditions and their impact on the Group's future trading performance. The forecasts completed on this basis show that the Group will be able to operate within the current committed debt facilities and show continued compliance with the Company's financial covenants. On the basis of the exercise described above and the Group's available committed debt facilities, the Directors consider that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt a going concern basis in preparing the financial statements of the Group and the Company.

## ACCOUNTABILITY AND AUDIT

A responsibility statement of the Directors and a statement by the Auditor about its reporting responsibilities can be found on pages 74 to 75 and 78 respectively. The Directors fulfil the responsibilities set out in their statement within the context of an overall control environment of central strategic direction and decentralised operating responsibility.

## DIVIDEND

The Board is recommending a final dividend in respect of 2012 of 5.5p per ordinary share which, if approved, will be paid on 13 June 2013 to shareholders on the register at 10 May 2013.

## DIRECTORS

Mr Butterworth was appointed a Director on 10 September 2012 and resigned on 31 December 2012 upon the appointment of Mr Egan as Group Finance Director on 1 January 2013. Mr Butterworth received no payment from Alent plc for his services as a Director.

In order to complete various legal formalities in advance of the demerger, two former Cookson Group plc senior managers, Bryan Elliston and Richard Malthouse served as statutory Directors of the Company from the date of incorporation on 31 August 2012 until the formal Board was appointed on 31 October 2012. Neither of Messrs Elliston and Malthouse received payment from Alent plc for their services as a director.

Peter Hill and Steve Corbett were similarly appointed statutory directors of the Company on 10 September 2012.

Simon O'Hara served as Company Secretary from the date of incorporation on 31 August 2012.

Biographical information for all the current Directors of the Company is given on pages 44 to 45. All the Directors will retire at the AGM and offer themselves for election. Further information on the contractual arrangements of the Executive Directors is given on pages 65 and 66. The Non-executive Directors do not have service agreements.

## AUDITOR

Resolutions for the reappointment of KPMG LLP as Auditor of the Company and to authorise the Directors to determine its remuneration are to be proposed at the AGM.

## DISCLOSURE OF INFORMATION TO THE AUDITOR

As at the date of this report, so far as each Director of the Company is aware, there is no relevant audit information of which the Company's Auditor is unaware and each Director hereby confirms that they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

## CHANGE OF CONTROL PROVISIONS

The terms of the Group's committed bank facility contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control on takeover of the Company. A number of other arrangements to which the Company and its subsidiaries are party, such as other debt arrangements and share incentive plans, may alter or terminate on a change of control in the event of a takeover. In the context of the Group as a whole, these other arrangements are not considered to be significant.

## OTHER INFORMATION RELEVANT TO THE DIRECTORS' REPORT MAY BE FOUND IN THE FOLLOWING SECTIONS OF THE ANNUAL REPORT:

### Business review

The review of the business of the company and the description of the principal risks and uncertainties facing the Company, prepared in accordance with the Companies Act 2006, comprises the following sections of the Annual Report:

Chief Executive's Statement on pages 14 to 15;

Business Unit Review on pages 16 to 17;

The What We Do and Where We Operate: Our Markets section on pages 4 to 11;

The Financial Review on pages 18 to 25;

The Corporate Social Responsibility report on pages 30 to 35;

The Business Model and Strategy on pages 38 to 39;

The Key Performance Indicators on page 40 to 41;

This Directors' Report on pages 70 to 71;

The Corporate Governance Report on pages 46 to 55; and

The Approach to Risk Management section on pages 26 to 29.

This Directors' Report was approved by the Board and is signed on its behalf by:

**Simon O'Hara**
Company Secretary
28 March 2013

# Additional Statutory Disclosures

## PENSIONS

In each country in which the Group operates, the pension arrangements in place are considered to be consistent with good employment practice in that particular area. Independent advisers are used to ensure that the plans are operated in accordance with local legislation and the rules of each plan. Group policy prohibits direct investment of pension fund assets in the Company's shares. Outside the US, the majority of pension plans in the Group are of a defined contribution nature. Current active employees in the UK are offered membership of a defined contribution plan, which is operated on a contract basis, with oversight by a governance committee.

All US retirement plan assets are held in trust for the exclusive benefit of plan participants and their beneficiaries. An independent financial institution acts as the Trustee. The trust assets are protected by law and by Federal Government Regulation and are subject to annual audit by an independent accountant, the Internal Revenue Service and the Department of Labor. Further details of pension arrangements are given in note 27.

## DONATIONS

Donations of the Company in the UK for charitable purposes totalled £nil (2011 £nil). In accordance with Company policy, no political donations were made in either 2012 or 2011.

## CREDITOR PAYMENT POLICY

Each operating company in the Group is responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. In the accounts of the Company as at 31 December 2012, the number of days' purchases outstanding was 30 (2011: 27).

## ESSENTIAL CONTRACTS OR ARRANGEMENTS WITH CUSTOMERS, CONTRACTORS AND SUPPLIERS

The Company is required to disclose any contractual or other arrangements with customers, contractors and suppliers which it considers are essential to its business. The Company has a number of contractual arrangements in support of its business activities. Whilst the loss of some of these arrangements may cause temporary disruption, none is considered to be essential in the context of Alent's business as a whole.

## SHARE CAPITAL

As at the date of this report, the Company had an issued share capital of 278,448,752 ordinary shares of 10p each, being the total number of Alent plc shares with voting rights. The Company currently has three classes of shares. Further information relating to the Company's issued share capital can be found in note 7 to the Company financial statements.

The Company operates a number of share-based incentive plans (further details about these are given in the Directors' Remuneration Report). For these plans, the Company can satisfy entitlements either by the acquisition of existing shares or by the issue of new shares. No ordinary shares have been issued in relation to the exercise of options granted under the Company's share option schemes. Resolutions giving the Directors the authority to allot shares and make allotments of shares to persons other than existing shareholders in certain circumstances will be proposed at the AGM.

## THE COMPANY'S ARTICLES OF ASSOCIATION

The Company's Articles of Association are available on the Investor Relations/Corporate Governance section of the Company's website, and may only be amended by a special resolution at a general meeting of the Company.

## APPOINTMENT AND REPLACEMENT OF DIRECTORS

The Directors shall not be fewer than five nor more than 15 in number. The Company may, by ordinary resolution from time to time, vary the minimum number and/or maximum number of Directors. The Board may appoint any person to be a Director (so long as the total number of Directors does not exceed the limit prescribed in the Articles). Any such Director shall only hold office until the next AGM and shall then be eligible for election.

## INTERESTS IN VOTING RIGHTS

The following information has been disclosed to the company under the FSA's DTRs in respect of notifiable interests in the voting rights of the Company's issued share capital exceeding the 3% notification threshold:

| | 31 Dec 2012 % | 15 March 2013 % |
|---|---|---|
| Cevian Capital II G.P. Ltd | 20.00 | 20.00 |
| Artisan Partners | 7.89 | 8.30 |
| Pelham Capital Management CFD | 5.88 | 5.88 |
| Franklin Templeton | 1.59 | 5.77 |
| LSV Asset Management | 4.93 | 4.92 |
| Governance for Owners LLP | 4.20 | 4.20 |
| Dimensional Fund Advisors | 3.69 | 3.69 |
| Legal & General Investment Management | 3.50 | 3.45 |
| T Rowe Price Global Investments | 3.19 | 3.39 |
| BlackRock Inc | 3.09 | 3.02 |

Information provided to the company pursuant to the FSA's DTRs is published on the Regulatory Information Service and the Company's website **www.alent.com**. The interests of Directors and their connected persons in the ordinary shares of the Company as disclosed in accordance with the Listing Rules of the UK Listing Authority are as set out on page 69 and details of the Directors' long-term incentive awards are set out on pages 68 and 69.

# Directors' Responsibility Statement

The Directors of Alent plc are responsible for preparing the Annual Report and the Group and parent company ("the Company") financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law ("UK Generally Accepted Accounting Practice").

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 their profit or loss for that period. In preparing each of the Group and the Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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 enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Report that comply with that law and those regulations.

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

## RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT

Each of the Directors, as at the date of the Annual Report, whose names and functions are indicated below confirms that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Management Report represented by the Directors' Report contained in the Annual Report for the year 2012 includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The names and functions of the Directors of Alent plc are as follows:

| | |
|---|---|
| Peter Hill | Chairman |
| Steve Corbett | Chief Executive |
| David Egan | Group Finance Director |
| Emma Fitzgerald | Non-executive Director |
| Lars Förberg | Non-executive Director |
| Nöel Harwerth | Non-executive Director and Chairman of the Remuneration Committee |
| Jan Oosterveld | Non-executive Director |
| Mark Williamson | Non-executive Director, Senior Independent Director and Chairman of the Audit Committee |

This responsibility statement was approved by the Board on 28 March 2013 and is signed on its behalf by:

By Order of the Board

**David Egan**
Group Finance Director
28 March 2013

# Financial Statements

In a difficult economic environment, we delivered a solid set of results for 2012.

For further information please visit **www.alent.com**

## SECTION CONTENTS

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# Independent Auditor's Report

We have audited the financial statements of Alent plc ("the Company") for the year ended 31 December 2012 which comprise the Group income statement, the Group statement of comprehensive income, the Group statement of cash flows, the Group and Company balance sheets, the Group statement of changes in equity, and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and UK Accounting Standards ("UK Generally Accepted Accounting Practice").

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on pages 74 and 75, 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.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.ukauditscopeukprivate.

## OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 70, in relation to going concern;
- the part of the Corporate Governance Report on page 46 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

**Michael Maloney (Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor, Chartered Accountants, 15 Canada Square, London, E14 5GL
28 March 2013

# Group Income Statement

For the year ended 31 December 2012

| | Notes | 2012 £m | 2011 £m |
|---|---|---|---|
| **Revenue** | 5 | **713.9** | 814.4 |
| Manufacturing costs before exceptional items | 8 | **(460.6)** | (558.8) |
| Administration, selling and distribution costs before exceptional items | 8 | **(150.3)** | (156.0) |
| **Operating profit before share of joint ventures and exceptional items** | 5 | **103.0** | 99.6 |
| Share of post-tax profit of joint ventures | | **0.3** | 1.2 |
| Exceptional items | 8 | **(15.8)** | (3.5) |
| **Operating profit** | 5 | **87.5** | 97.3 |
| Demerger costs | 9 | **(10.7)** | — |
| Finance costs | 10 | **(6.4)** | (6.3) |
| Finance income | 10 | **2.8** | 3.4 |
| **Profit before tax** | | **73.2** | 94.4 |
| Income tax costs — ordinary activities | 11 | **(23.3)** | (16.8) |
| — exceptional items | 11 | **(4.9)** | (3.2) |
| **Profit for the year** | | **45.0** | 74.4 |

| | | | |
|---|---|---|---|
| **Earnings per share (pence)** | 12 | | |
| Basic | | **16.2** | 27.0 |
| Diluted | | **16.2** | 26.5 |

# Group Statement of Comprehensive Income

For the year ended 31 December 2012

| | Notes | 2012 £m | 2011 £m |
|---|---|---|---|
| **Profit for the year** | | **45.0** | 74.4 |
| **Other comprehensive income/(loss) for the year** | | | |
| Exchange differences on translation of the net assets of foreign operations | | **(11.0)** | (2.4) |
| Change in fair value of cash flow hedges | 23 | **1.9** | (1.6) |
| Actuarial gains on employee benefits plans | 27 | **—** | 0.2 |
| Actuarial losses on employee benefits plans | 27 | **(3.5)** | (5.7) |
| Income tax relating to components of other comprehensive income | 11 | **0.2** | — |
| **Other comprehensive loss for the year, net of income tax** | | **(12.4)** | (9.5) |
| **Total comprehensive income for the year** | | **32.6** | 64.9 |

# Group Statement of Cash Flows

For the year ended 31 December 2012

| | Notes | 2012 £m | 2011 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 45.0 | 74.4 |
| Adjustments for: | | | |
| Depreciation | | 8.9 | 8.5 |
| Share of post-tax profit of joint ventures | | (0.3) | (1.2) |
| Exceptional items | 8 | 15.8 | 3.5 |
| Demerger costs | 9 | 10.7 | — |
| Net finance costs | 10 | 3.6 | 2.9 |
| Income tax costs | 11 | 28.2 | 20.0 |
| EBITDA | | 111.9 | 108.1 |
| Increase in inventories | | (5.1) | (1.2) |
| (Increase)/decrease in trade receivables | | (0.6) | 15.1 |
| Decrease in trade payables | | (8.4) | (2.7) |
| Increase in other working capital balances | | (5.9) | (20.8) |
| Net increase in trade and other working capital | | (20.0) | (9.6) |
| Outflow related to restructuring charges | | (19.8) | (3.8) |
| Payment of demerger costs | | (5.7) | — |
| Additional funding contributions into Group pension plans | | (2.1) | (1.7) |
| **Cash generated from operations** | | 64.3 | 93.0 |
| Interest paid | | (3.1) | (1.3) |
| Interest received | | 0.5 | 0.3 |
| Income taxes paid | | (22.1) | (15.1) |
| **Net cash inflow from operating activities** | | 39.6 | 76.9 |
| | | | |
| **Cash flows from investing activities** | | | |
| Capital expenditure | | (21.9) | (16.1) |
| Proceeds from the sale of property, plant and equipment | | 1.8 | — |
| Acquisition of subsidiaries and joint ventures, net of cash acquired | 32 | (1.4) | (0.7) |
| Disposal of subsidiaries and joint ventures, net of cash disposed of | | — | (1.9) |
| Dividends received from joint ventures | | 0.3 | 1.2 |
| Other investing outflows | | — | (1.5) |
| **Net cash outflow from investing activities** | | (21.2) | (19.0) |
| **Net cash inflow before financing activities** | | 18.4 | 57.9 |
| | | | |
| **Cash flows from financing activities** | | | |
| Increase in borrowings | 15 | 251.5 | 8.5 |
| Capital contribution to Vesuvius plc | | (245.0) | (110.5) |
| Borrowing facility arrangement costs | | (2.9) | — |
| **Net cash inflow/(outflow) from financing activities** | | 3.6 | (102.0) |
| **Net increase/(decrease) in cash and cash equivalents** | 15 | 22.0 | (44.1) |
| Cash and cash equivalents at 1 January | | 60.6 | 103.4 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | (2.0) | 1.3 |
| **Cash and cash equivalents at 31 December** | 14 | 80.6 | 60.6 |

# Group Balance Sheet

As at 31 December 2012

| | Notes | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| Property, plant and equipment | 16 | **83.9** | 75.8 | 69.7 |
| Intangible assets | 17 | **295.0** | 298.8 | 301.0 |
| Interests in joint ventures | | **12.6** | 15.7 | 14.8 |
| Investments | | **1.0** | 0.7 | 0.8 |
| Deferred tax assets | 11 | **5.2** | 7.5 | 7.7 |
| Other receivables | | **9.5** | 9.5 | 0.4 |
| **Total non-current assets** | | **407.2** | 408.0 | 394.4 |
| Cash and short-term deposits | 14 | **81.5** | 75.9 | 112.8 |
| Inventories | 20 | **53.5** | 50.0 | 49.7 |
| Trade and other receivables | 19 | **138.0** | 145.7 | 156.7 |
| Income tax recoverable | | **2.1** | 0.2 | — |
| Derivative financial instruments | 21 | **0.3** | 2.5 | 2.4 |
| **Total current assets** | | **275.4** | 274.3 | 321.6 |
| **Total assets** | | **682.6** | 682.3 | 716.0 |
| **Equity** | | | | |
| Issued share capital | 22 | **27.8** | 417.7 | 417.7 |
| Other reserves | 23 | **(430.8)** | (421.7) | (417.7) |
| Retained earnings | 24 | **679.0** | 458.7 | 499.3 |
| **Total equity** | | **276.0** | 454.7 | 499.3 |
| **Liabilities** | | | | |
| Interest-bearing borrowings | 26 | **225.6** | 0.3 | 0.4 |
| Employee benefits | 27 | **24.3** | 26.4 | 26.9 |
| Other payables | 29 | **4.4** | 0.6 | 2.2 |
| Provisions | 31 | **12.3** | 25.7 | 23.8 |
| Deferred tax liabilities | 11 | **29.9** | 26.9 | 23.4 |
| **Total non-current liabilities** | | **296.5** | 79.9 | 76.7 |
| Interest-bearing borrowings | 26 | **0.3** | 24.1 | 9.6 |
| Trade and other payables | 29 | **88.1** | 104.6 | 109.9 |
| Provisions | 31 | **7.8** | 5.6 | 8.1 |
| Income tax payable | | **13.6** | 11.7 | 9.8 |
| Derivative financial instruments | 21 | **0.3** | 1.7 | 2.6 |
| **Total current liabilities** | | **110.1** | 147.7 | 140.0 |
| **Total liabilities** | | **406.6** | 227.6 | 216.7 |
| **Total equity and liabilities** | | **682.6** | 682.3 | 716.0 |

The financial statements were approved and authorised for issue by the Board on 28 March 2013 and signed on its behalf by:

**Steve Corbett,** Chief Executive **David Egan,** Group Finance Director

# Group Statement of Changes in Equity

For the year ended 31 December 2012

| | Issued share capital £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|
| **As at 1 January 2011** | 417.7 | (417.7) | 499.3 | 499.3 |
| **Profit for the year** | — | — | 74.4 | 74.4 |
| Exchange differences on translation of the net assets of foreign operations | — | (2.4) | — | (2.4) |
| Change in fair value of cash flow hedges | — | (1.6) | — | (1.6) |
| Actuarial gains on employee benefits plans | — | — | 0.2 | 0.2 |
| Actuarial losses on employee benefits plans | — | — | (5.7) | (5.7) |
| **Other comprehensive loss** | — | (4.0) | (5.5) | (9.5) |
| **Total comprehensive (loss)/income** | — | (4.0) | 68.9 | 64.9 |
| Recognition of share-based payments | — | — | 1.0 | 1.0 |
| Capital contribution to Vesuvius plc | — | — | (110.5) | (110.5) |
| **Total transactions with owners** | — | — | (109.5) | (109.5) |
| **As at 1 January 2012** | **417.7** | **(421.7)** | **458.7** | **454.7** |
| **Profit for the year** | **—** | **—** | **45.0** | **45.0** |
| Exchange differences on translation of the net assets of foreign operations | **—** | **(11.0)** | **—** | **(11.0)** |
| Change in fair value of cash flow hedges | **—** | **1.9** | **—** | **1.9** |
| Actuarial losses on employee benefits plans | **—** | **—** | **(3.5)** | **(3.5)** |
| Income tax relating to components of other comprehensive income (note 11) | **—** | **—** | **0.2** | **0.2** |
| **Other comprehensive loss** | **—** | **(9.1)** | **(3.3)** | **(12.4)** |
| **Total comprehensive (loss)/income** | **—** | **(9.1)** | **41.7** | **32.6** |
| Recognition of share-based payments | **—** | **—** | **1.0** | **1.0** |
| Capital reduction | **(389.9)** | **—** | **389.9** | **—** |
| Capital contribution to Vesuvius plc | **—** | **—** | **(245.0)** | **(245.0)** |
| Capital contribution from Vesuvius plc | **—** | **—** | **32.7** | **32.7** |
| **Total transactions with owners** | **(389.9)** | **—** | **178.6** | **(211.3)** |
| **As at 31 December 2012** | **27.8** | **(430.8)** | **679.0** | **276.0** |

Further information on the movements in the reserves making up the other reserves and retained earnings shown in the table above may be found in notes 23 and 24.

# Notes to the Group Financial Statements

## 1. GENERAL INFORMATION

Alent plc ("the Company") is a public limited company registered in England and Wales and listed on the London Stock Exchange. The nature of the operations and principal activities of the Company and its subsidiary and joint venture companies ("the Group") are set out on pages 4 to 11 and its registered address is Forsyth Road, Sheerwater, Woking GU21 5RZ.

## 2. BASIS OF PREPARATION

### 2.1 BASIS OF ACCOUNTING

The consolidated financial statements of Alent plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

### 2.2 GROUP REORGANISATION AND DEMERGER

The Performance Materials division was demerged from Vesuvius plc with effect from 19 December 2012 and the entities making up the Performance Materials division were transferred to a new parent company, Alent plc. Application was made to the UK Listing Authority and to the London Stock Exchange for the issued share capital of Alent plc to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's market for listed securities as from 19 December 2012.

The demerger was effected by a three part transaction as follows:

- The entire share capital of Cookson Group plc was cancelled and shareholders were given one ordinary share in Vesuvius plc for every share in Cookson Group plc held;
- The entire share capital of Alent Investments Limited, the holding company of the companies making up the Performance Materials division was transferred to Alent plc;
- In return for the share capital of Alent Investments Limited, Alent plc allotted and issued to Vesuvius plc shareholders one Alent share (credited as fully paid) for each Vesuvius plc share held at 19 December 2012.

Although Alent plc acquired the entire share capital of Alent Investments Limited, it did not have the power to govern the financial and operating policies of the Performance Materials division. For that reason, the acquisition has been accounted for in accordance with the principles of reverse acquisition accounting as set out in IFRS 3, *Business Combinations*. For the purposes of these consolidated financial statements, this had the effect of the legal acquirer, Alent plc, being treated as having been acquired by its legal subsidiary, Alent Investments Limited. The impact of adopting this reverse acquisition accounting basis is set out in each applicable note to these consolidated financial statements, which have been prepared as if the continuing operations of the Group were in existence for the whole of the period 1 January 2011 to 31 December 2012.

### 2.3 BASIS OF CONSOLIDATION

The consolidated financial statements of the Group incorporate the financial statements of the Company and entities controlled by the Company (its "subsidiaries"). Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing whether control exists, potential voting rights that are currently exercisable are taken into account. The results of subsidiaries acquired or disposed of during the year are included in the Group income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those detailed herein to ensure that the Group financial statements are prepared on a consistent basis. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

## 2. BASIS OF PREPARATION (CONTINUED)

### 2.4 FIRST-TIME ADOPTION OF IFRSs

These are the Group's first consolidated financial statements prepared in accordance with IFRSs and IFRS 1, *First-time Adoption of International Financial Reporting Standards*, has been applied with a transition date of 1 January 2011. Since no consolidated financial statements were previously prepared for Alent plc, no reconciliations to previous GAAP have been presented. In applying IFRS 1, the Group has taken advantage of the exemption from recording cumulative translation differences and hedging differences that existed at the transition date.

### 2.5 GOING CONCERN

As discussed in more detail in the Directors' Report on page 70, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, they have adopted the going concern basis in preparing the financial statements for the year ended 31 December 2012.

### 2.6 FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in millions of pounds sterling, which is the functional currency of the Company, and rounded to one decimal place. Foreign operations are included in accordance with the policies set out in note 26.1.

### 2.7 DISCLOSURE OF EXCEPTIONAL ITEMS

IAS 1, *Presentation of Financial Statements*, provides no definitive guidance as to the format of the income statement, but states key lines which should be disclosed, encourages disclosure of additional line items where such presentation will assist in understanding financial performance and requires separate disclosure of material items of income or expense. Accordingly, the Company discloses exceptional items separately on the face of its Group income statement, together with a full explanation of the nature and function of such items in the notes to the financial statements.

Both materiality and the nature and function of the item are considered in deciding whether an item warrants treatment as an exceptional item. Such items may include, inter alia, the financial effect of major restructuring activity, profits or losses relating to current and non-current assets, gains or losses relating to employee benefits plans, profits or losses arising on business disposals, and other items, including the taxation impact of the aforementioned items, which have a significant impact on the Group's results either due to their size or nature.

### 2.8 NEW AND REVISED IFRS

During the year a number of amendments to IFRS became effective and were adopted by the Group, none of which had a material impact on the Group's net cash flows, financial position, total comprehensive income or earnings per share. A number of other new and amended IFRS were issued during the year which do not become effective until after 1 January 2013, none of which are likely to have a material impact on the Group's net cash flows, financial position, total comprehensive income or earnings per share.

## 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Determining the carrying amount of some assets and liabilities requires estimation of the effect of uncertain future events. The major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets or liabilities are noted below.

### 3.1 GOODWILL

The Directors use their judgement to determine the extent to which goodwill has a value that will benefit the performance of the Group over future periods. To assist in making this judgement, the Directors undertake an assessment, at least annually, of the carrying value of the Group's capitalised goodwill. In the assessment undertaken as at 31 December 2012, further details of which are given in note 18, value in use was derived from discounted five-year cash flow projections, using a growth rate of 2.5% in the years beyond the projection period and pre-tax discount rates. The projection period is, in the opinion of the Directors, an appropriate period over which to view the future results of the Group's businesses for this purpose. Changes to the assumptions used in making these forecasts could significantly alter the Directors' assessment of the carrying value of goodwill.

# Notes to the Group Financial Statements
continued

## 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### 3.2 EMPLOYEE BENEFITS

The Group's financial statements include the costs and obligations associated with the provision of pension and other post-retirement benefits to current and former employees. It is the Directors' responsibility to set the assumptions used in determining the key elements of the costs of meeting such future obligations. The assumptions are set after consultation with the Group's actuary, and whilst the Directors believe that the assumptions used are appropriate, a change in the assumptions used would affect the Group's profit and financial position.

### 3.3 LIABILITY RESERVES

Alent has extensive international operations and is subject to various legal and regulatory regimes, including those covering taxation and environmental matters. Several of the Group's subsidiaries are parties to legal proceedings, certain of which are insured claims arising in the ordinary course of the operations of the company involved, and are aware of a number of issues which are, or may be, the subject of dispute with tax authorities. Reserves are made for the expected amounts payable in respect of known or probable costs resulting both from legal or other regulatory requirements, or from third-party claims. As the settlement of many of the obligations for which reserve is made is subject to legal or other regulatory process, the timing and amount of the associated outflows is subject to some uncertainty. The Directors use their judgement and experience to make reserves in the financial statements for an appropriate amount relating to such matters.

### 3.4 TAXATION

*(a) Current tax*

Tax benefits are not recognised unless it is probable that they will result in future economic benefits to the Group. In assessing the amount of the benefit to be recognised in the financial statements, the Directors exercise their judgement in considering the effect of negotiations, litigation and any other matters that they consider may impact upon the potential settlement. Any interest and penalties on tax liabilities are provided for in the tax charge. The Group operates internationally and is subject to tax in many different jurisdictions. As a consequence, the Group is routinely subject to tax audits and local enquiries which, by their very nature, can take a considerable period of time to conclude. Provisions are made for known issues based upon the Directors' interpretation of country-specific tax law and their assessment of the likely outcome.

*(b) Deferred tax*

The Group has recognised deferred tax assets in respect of unutilised losses and other timing differences arising in a number of the Group's businesses. Account has been taken of future forecasts of taxable profit in arriving at the values at which these assets are recognised. If these forecast profits do not materialise or change, or there are changes in tax rates or to the period over which the losses or timing differences might be recognised, then the value of deferred tax assets will need to be revised in a future period.

The Group also has losses and other timing differences for which no deferred tax assets have been recognised in these financial statements, relating either to loss-making subsidiaries where the future economic benefit of the timing difference is not probable or to where the timing difference is of such a nature that its value is dependent on certain types of profit being earned, such as capital profits. If operating or other appropriate profits are earned in future in these companies, these losses and other timing differences may yield benefit to the Group in the form of a reduced tax charge.

## 4. NON-GAAP FINANCIAL MEASURES

The Company uses a number of non-Generally Accepted Accounting Practice ("non-GAAP") financial measures in addition to those reported in accordance with IFRS. The Directors believe that these non-GAAP measures, listed below, are important when assessing the underlying financial and operating performance of the Group and its businesses.

### 4.1 NET SALES VALUE

Net sales value is calculated as revenue, excluding the amount included therein related to commodity metals.

### 4.2 RETURN ON SALES AND RETURN ON NET SALES VALUE

Return on sales is calculated as adjusted operating profit divided by revenue. Return on net sales value is calculated as adjusted operating profit divided by net sales value.

## 4. NON-GAAP FINANCIAL MEASURES (CONTINUED)

### 4.3 UNDERLYING REVENUE

Underlying revenue is calculated as net sales value adjusted to exclude the effects of changes in exchange rates and business acquisitions, disposals and closures.

### 4.4 ADJUSTED OPERATING PROFIT

Adjusted operating profit is operating profit as reported in the Group income statement before the share of post-tax profits of joint ventures, exceptional items, demerger costs and including the effects of proforma adjustments as described on page 18.

### 4.5 ADJUSTED PROFIT BEFORE TAX

Adjusted profit before tax is profit before tax as reported in the Group income statement before exceptional items, demerger costs and including the effects of proforma adjustments as described on page 18.

### 4.6 ADJUSTED PROFIT FOR THE YEAR

Adjusted profit for the year is profit for the year as reported in the Group income statement, before exceptional items, demerger costs, exceptional tax and including the effects of proforma adjustments as described on page 18.

### 4.7 ADJUSTED EARNINGS PER SHARE

Adjusted earnings per share is based upon adjusted profit for the year.

### 4.8 ADJUSTED CASH GENERATED FROM OPERATIONS

Adjusted cash generated from operations is cash generated from operations as reported in the Group statement of cash flows after adding back £21.7m (2011: £nil) of Woking restructuring (note 8) and demerger cash costs (note 9).

### 4.9 FREE CASH FLOW

Free cash flow is defined as net cash flow from operating activities after net outlays for the purchase and sale of property, plant and equipment and dividends from joint ventures but before additional funding contributions to Group pension plans.

### 4.10 AVERAGE WORKING CAPITAL TO SALES RATIO

The average working capital to sales ratio is calculated as the percentage of average working capital balances to the annualised revenue for the year. Average working capital (comprising inventories, trade and other receivables, and trade and other payables) is calculated as the average of the six previous month-end balances, and annualised revenue is derived from the revenue for the previous six months.

### 4.11 EBITDA

EBITDA is calculated as the total of operating profit before share of post-tax profit of joint ventures, exceptional items and depreciation charges.

### 4.12 NET INTEREST

Net interest is calculated as interest payable on borrowings less interest receivable, excluding any item therein considered by the Directors to be exceptional.

### 4.13 INTEREST COVER

Interest cover is the ratio of EBITDA to net interest.

### 4.14 NET DEBT

Net debt comprises the net total of current and non-current interest-bearing borrowings and cash and short-term deposits.

### 4.15 NET DEBT TO EBITDA

Net debt to EBITDA is the ratio of net debt at the year-end to EBITDA for that year.

# Notes to the Group Financial Statements
continued

## 4. NON-GAAP FINANCIAL MEASURES (CONTINUED)

### 4.16 RETURN ON NET ASSETS

Return on net assets ("RONA") is calculated as adjusted operating profit plus share of post-tax profit of joint ventures, divided by average net operating assets (being the average over the previous 12 months of property, plant and equipment, trade working capital and other operating receivables and payables).

### 4.17 RETURN ON INVESTMENT

Return on investment ("ROI") is calculated as adjusted operating profit after tax plus share of post-tax profit of joint ventures, divided by invested capital (being total equity plus net debt, net employee benefits liabilities and goodwill previously written off to, or amortised against, reserves).

## 5. SEGMENT INFORMATION

The segment information contained in this note makes reference to several non-GAAP financial measures, definitions for which can be found in note 4.

### 5.1 ACCOUNTING POLICY

*(a) Revenue recognition*

Revenue comprises the fair value of the consideration received or receivable for goods supplied and services rendered to customers after deducting rebates, discounts and value-added taxes, and after eliminating sales within the Group. Where a contractual arrangement consists of two or more separate elements that can be provided to customers either on a stand-alone basis or as an extra, such as the provision of supplementary materials with equipment, revenue is recognised for each element as if it were an individual contractual arrangement.

*Sale of goods* Revenue from the sale of goods is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. A provision for anticipated returns is made based primarily on historical return rates.

*Construction contracts* Where the outcome of a contractual arrangement, such as an equipment construction contract, can be estimated reliably, revenue and costs are recognised as performance occurs by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

*(b) Research and development costs*

Expenditure on research activities is recognised in the income statement as an expense in the year in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. All other development expenditure is recognised in the income statement as an expense in the year in which it is incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

### 5.2 BUSINESS SEGMENTS

For reporting purposes, the Group is organised into two main business segments, namely Assembly Materials and Surface Chemistries. It is the Alent Board which makes the key operating decisions in respect of these segments. The information used by the Board to review performance and determine resource allocation is presented with the Group's activities analysed between these two business segments. Taking into account the basis on which the Group's activities are reported to the Alent Board and the nature of the products and services within each of these business segments, the Directors believe that these two business segments are the appropriate way to analyse the Group's results. The principal activities of each of these segments are described in the Business Unit Review on pages 16 to 17.

Segment revenue represents revenue from external customers (inter-segment revenue is not material) and segment result is operating profit before share of joint ventures and exceptional items and before corporate costs directly related to managing the parent company, which are reported separately in the tables below. Segment result includes items directly attributable to a segment as well as those items that can be allocated on a reasonable basis.

## 5. SEGMENT INFORMATION (CONTINUED)

### 5.3 INCOME STATEMENT

| | 2012 | | | |
|---|---|---|---|---|
| | Assembly Materials £m | Surface Chemistries £m | Corporate/ unallocated £m | Group £m |
| **Segment revenue** | **438.7** | **275.2** | **—** | **713.9** |
| Segment net sales value | **208.0** | **208.7** | **—** | **416.7** |
| Segment EBITDA | **62.9** | **48.7** | **—** | **111.6** |
| Segment depreciation | **(5.4)** | **(3.5)** | **—** | **(8.9)** |
| **Segment result** | **57.5** | **45.2** | **—** | **102.7** |
| Corporate costs | **—** | **—** | **0.3** | **0.3** |
| **Operating profit before share of joint ventures and exceptional items** | **57.5** | **45.2** | **0.3** | **103.0** |
| Share of post-tax profit of joint ventures | **—** | **0.3** | **—** | **0.3** |
| Exceptional items | **(0.4)** | **(9.7)** | **(5.7)** | **(15.8)** |
| **Operating profit** | **57.1** | **35.8** | **(5.4)** | **87.5** |
| Demerger costs | | | | **(10.7)** |
| Finance costs | | | | **(6.4)** |
| Finance income | | | | **2.8** |
| **Profit before tax** | | | | **73.2** |
| Return on sales margin (%) | **13.1** | **16.4** | **—** | **14.4** |
| Return on net sales value (%) | **27.6** | **21.7** | **—** | **24.7** |
| Capital expenditure additions (£m) | **6.9** | **15.0** | **—** | **21.9** |
| Average number of employees (number) | **1,347** | **1,212** | **21** | **2,580** |

| | 2011 | | | |
|---|---|---|---|---|
| | Assembly Materials £m | Surface Chemistries £m | Corporate/ unallocated £m | Group £m |
| **Segment revenue** | 527.3 | 287.1 | — | 814.4 |
| Segment net sales value | 214.1 | 219.2 | — | 433.3 |
| Segment EBITDA | 57.0 | 51.1 | — | 108.1 |
| Segment depreciation | (4.9) | (3.6) | — | (8.5) |
| **Segment result** (1) | 52.1 | 47.5 | — | 99.6 |
| Share of post-tax profit of joint ventures | — | 1.2 | — | 1.2 |
| Exceptional items | (0.5) | 0.1 | (3.1) | (3.5) |
| **Operating profit** | 51.6 | 48.8 | (3.1) | 97.3 |
| Finance costs | | | | (6.3) |
| Finance income | | | | 3.4 |
| **Profit before tax** | | | | 94.4 |
| Return on sales margin (%) | 9.9 | 16.5 | — | 12.2 |
| Return on net sales value (%) | 24.3 | 21.7 | — | 23.0 |
| Capital expenditure additions (£m) | 11.5 | 4.6 | — | 16.1 |
| Average number of employees (number) | 1,352 | 1,209 | 21 | 2,582 |

1. Segment result in 2011 is the same as operating profit before share of joint ventures and exceptional items.

# Notes to the Group Financial Statements
continued

## 5. SEGMENT INFORMATION (CONTINUED)

### 5.3 INCOME STATEMENT (CONTINUED)

Net sales value for 2011 has been restated to £433.3m from the amount previously reported by Cookson Group plc of £417.7m to more accurately reflect the commodity metals content of the Assembly Materials division.

### 5.4 GEOGRAPHIC ANALYSIS

| | External revenue | | Non-current assets | |
|---|---|---|---|---|
| | **2012 £m** | 2011 £m | **2012 £m** | 2011 £m |
| United States of America | **174.5** | 178.0 | **113.6** | 117.0 |
| China | **167.2** | 191.0 | **28.0** | 23.0 |
| Germany | **73.6** | 75.9 | **55.1** | 54.9 |
| Taiwan | **70.5** | 91.2 | **3.1** | 5.3 |
| Brazil | **33.7** | 39.4 | **2.7** | 2.4 |
| United Kingdom | **27.7** | 33.3 | **19.1** | 13.6 |
| Singapore | **28.1** | 31.1 | **96.1** | 94.9 |
| Rest of the world | **138.6** | 174.5 | **84.3** | 89.4 |
| **Total Group** | **713.9** | 814.4 | **402.0** | 400.5 |

External revenue disclosed in the table above is based upon the geographical location of the operation. The Group's customers are widely dispersed around the world and no single country included within Rest of the World in the table above, for either of the years presented, amounts to more than 5% of the Group's total external revenue. Non-current assets exclude employee benefits net surpluses and deferred tax assets.

### 5.5 PRODUCTS AND CUSTOMERS

Information relating to the Group's products and services is given on pages 4 to 11. The Group is not dependent upon any single customer for its revenue and no single customer, for either of the years presented in the tables above, accounts for more than 10% of the Group's total external revenue.

## 6. EMPLOYEES

### 6.1 EMPLOYEE BENEFITS EXPENSE

| | **2012 £m** | 2011 £m |
|---|---|---|
| Wages and salaries | **99.5** | 103.4 |
| Social security costs | **6.4** | 7.3 |
| Share-based payments (note 28) | **1.2** | 1.1 |
| Pension costs — defined contribution pension plans (note 27) | **5.6** | 5.3 |
| — defined benefit pension plans (note 27) | **(1.1)** | (0.8) |
| Other post-retirement benefits (note 27) | **0.1** | — |
| **Total employee benefits expense** | **111.7** | 116.3 |

Of the total employee benefits expense of £111.7m (2011: £116.3m), £111.2m (2011: £117.7m) was charged in arriving at operating profit before share of joint ventures and exceptional items, £nil (2011: £2.0m) was credited within exceptional items, £2.8m (2011: £3.6m) was charged within ordinary finance costs, and £2.3m (2011: £3.0m) was credited within finance income.

### 6.2 REMUNERATION OF KEY MANAGEMENT PERSONNEL

The members of the Board of Directors of Alent are the key management personnel of Alent. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 67 to 69. Directors of Alent plc who were also directors of Cookson Group plc are not included in the analysis as their costs are included in the central corporate costs of Cookson and were not recharged to Alent. As Mr Corbett is a Director of Alent plc and during

## 6. EMPLOYEES (CONTINUED)

### 6.2 REMUNERATION OF KEY MANAGEMENT PERSONNEL (CONTINUED)

the whole of the reporting period was Chief Executive of the Performance Materials division of Cookson Group, the analysis of his remuneration, which is included within the financial results of Alent for the Reporting Periods is noted below:

| | 2012 £m | 2011 £m |
|---|---|---|
| Short-term employee benefits | 0.4 | 0.7 |
| Post-employment benefits | 0.2 | 0.1 |
| Share-based payments | 0.3 | 0.3 |
| **Total remuneration of key management personnel** | **0.9** | 1.1 |

## 7. AMOUNTS PAYABLE TO KPMG LLP AND ITS ASSOCIATES

| | 2012 £m | 2011 £m |
|---|---|---|
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts | 0.3 | — |
| Fees payable to the Company's auditor and its associates for other services: | | |
| Audit of the Company's subsidiaries | 0.8 | 0.7 |
| Tax compliance | 0.1 | 0.1 |
| Tax advisory services | 0.3 | — |
| Corporate finance services | 1.2 | — |
| **Total auditor's remuneration** | **2.7** | 0.8 |

Fees relating to corporate finance services represent amounts payable to KPMG LLP for its role in the demerger.

## 8. EXCEPTIONAL ITEMS

The table below details the exceptional items that have been charged in arriving at Group operating profit, together with the segment against which they were charged.

| | 2012 £m | 2011 £m |
|---|---|---|
| **Restructuring charges** | | |
| Assembly Materials | (0.4) | (0.1) |
| Surface Chemistries | (3.1) | (1.8) |
| | (3.5) | (1.9) |
| **Loss on construction contract** | | |
| Surface Chemistries | (6.6) | — |
| **Disposal and closure costs** | | |
| Assembly Materials | — | (0.4) |
| Surface Chemistries | — | (0.1) |
| Unallocated | (5.7) | (3.1) |
| | (5.7) | (3.6) |
| **Gains relating to employee benefits plans** | | |
| Surface Chemistries | — | 2.0 |
| **Total exceptional items** | **(15.8)** | (3.5) |

# Notes to the Group Financial Statements
continued

## 8. EXCEPTIONAL ITEMS (CONTINUED)

**Restructuring charges**

Restructuring charges for the year amounted to £3.5m (2011: £1.9m), principally arising in connection with initiatives that included redundancy programmes, the downsizing or closure of facilities, the streamlining of manufacturing processes and the rationalisation of product lines. The net tax credit attributable to these restructuring charges was £0.6m (2011: £0.2m).

Cash costs of £19.8m (2011: £3.8m) were incurred in the year in relation to restructuring activities, including £16.0m related to the purchase of a property in Woking, UK which was previously occupied on a leasehold basis and over which an onerous lease reserve had been established in 2009. The other cash costs in the year were incurred in respect of the restructuring initiatives commenced both in 2012 and in prior years leaving provisions made but unspent of £3.8m (2011: £19.5m).

**Loss on construction contract**

The one-off loss on a construction contract of £6.6m (2011: £nil) related to a contract for the installation of a chemical treatment line and represents the additional costs to complete the project incurred by Alent after the third party sub-contracted to carry out the work went into liquidation. The tax credit attributable to this loss was £1.9m (2011: £nil).

**Disposal and closure costs**

Costs of £5.7m (2011: £3.6m) arose in relation to costs incurred in connection with the demolition, monitoring and clean-up of sites of former Group businesses that were either closed or disposed of in prior years. The net tax credit attributable to these costs was £nil (2011: £nil).

**Gains relating to employee benefits plans**

The exceptional gain of £2.0m in 2011 arose from the closure of two defined benefit pension plans in the Netherlands. The tax charge associated with this gain was £0.5m.

**Impact of exceptional items on reported costs**

The table below shows manufacturing costs and administration, selling and distribution costs, both before and after items reported as exceptional items in the Group income statement.

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Before exceptional items £m | Exceptional items £m | Including exceptional items £m | Before exceptional items £m | Exceptional items £m | Including exceptional items £m |
| Manufacturing costs | 460.6 | 6.6 | 467.2 | 558.8 | — | 558.8 |
| Administration, selling and distribution costs | 150.3 | 9.2 | 159.5 | 156.0 | 3.5 | 159.5 |
| | 610.9 | 15.8 | 626.7 | 714.8 | 3.5 | 718.3 |

## 9. DEMERGER COSTS

One-off costs of £10.7m (2011: £nil) were incurred in effecting the demerger of Alent from Cookson Group plc, of which £5.7m (2011: £nil) were paid in cash in the year. The costs principally related to professional fees for audit and accountancy services, pension advice, and legal and regulatory compliance services. In addition to these costs, £2.9m of fees associated with establishing Alent's new bank facility have been capitalised against borrowings (note 26). The net tax credit attributable to these demerger costs was £nil (2011: £nil).

## 10. FINANCE COSTS AND FINANCE INCOME

### 10.1 ACCOUNTING POLICY

The ineffective portion of the change in fair value of interest rate swaps designated as cash flow hedges is included within interest payable on loans and overdrafts. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the income statement using the effective interest rate method.

## 10. FINANCE COSTS AND FINANCE INCOME (CONTINUED)

### 10.2 TOTAL NET FINANCE COSTS

| | 2012 £m | 2011 £m |
|---|---|---|
| Finance costs | **6.4** | 6.3 |
| Finance income | **(2.8)** | (3.4) |
| **Total net finance costs** | **3.6** | 2.9 |

### 10.3 FINANCE COSTS AND FINANCE INCOME

| | 2012 £m | 2011 £m |
|---|---|---|
| **Interest payable on borrowings** | | |
| Loans, overdrafts and factoring arrangements | **0.9** | 1.4 |
| Other borrowings | **2.3** | 0.3 |
| **Total interest payable on borrowings** | **3.2** | 1.7 |
| **Other interest payable** | | |
| Interest on retirement benefits obligations | **2.8** | 3.6 |
| Unwinding of discounted provisions | **0.4** | 1.0 |
| **Total finance costs** | **6.4** | 6.3 |
| | | |
| Interest receivable | **(0.5)** | (0.4) |
| Expected return on retirement benefits assets | **(2.3)** | (3.0) |
| **Total finance income** | **(2.8)** | (3.4) |

## 11. INCOME TAX

### 11.1 ACCOUNTING POLICY

Tax expense represents the sum of current tax and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that they relate to items charged or credited in other comprehensive income or directly to equity, in which case the associated tax is also dealt with in other comprehensive income or directly to equity.

**Current tax** is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

**Deferred tax** is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

# Notes to the Group Financial Statements
continued

## 11. INCOME TAX (CONTINUED)

### 11.2 INCOME TAX COSTS

| | 2012 £m | 2011 £m |
|---|---|---|
| **Current tax** | | |
| Current year | **22.1** | 17.3 |
| Adjustments in respect of prior years | **(0.9)** | (0.6) |
| **Total current tax** | **21.2** | 16.7 |
| | | |
| **Deferred tax** | | |
| Origination and reversal of temporary taxable differences | **4.6** | 4.2 |
| Adjustments in respect of prior years | **2.4** | (0.9) |
| **Total deferred tax** | **7.0** | 3.3 |
| **Total income tax costs** | **28.2** | 20.0 |
| | | |
| **Total income tax costs attributable to:** | | |
| Ordinary activities | **23.3** | 16.8 |
| Exceptional items | **4.9** | 3.2 |
| **Total income tax costs** | **28.2** | 20.0 |

The Group's total income tax costs of £28.2m (2011: £20.0m) include a charge of £4.9m (2011: £3.2m) relating to exceptional items as analysed in the table below:

| | 2012 £m | 2011 £m |
|---|---|---|
| Restructuring charges | **(0.6)** | (0.2) |
| Loss on construction contract | **(1.9)** | — |
| Deferred tax on goodwill | **4.5** | 2.9 |
| Demerger costs | **2.9** | — |
| Gains relating to employee benefits plans | **—** | 0.5 |
| **Total tax charge on exceptional items** | **4.9** | 3.2 |

Tax credited in the Group statement of comprehensive income in the year amounted to £0.2m (2011: £nil) all of which related to net actuarial gains and losses on employee benefits plans.

The Group operates in a number of countries that have differing tax rates, laws and practices. Changes in any of these areas could, adversely or positively, impact the Group's tax charge in the future. Continuing losses, or insufficiency of taxable profit to absorb all expenses, in any subsidiary could have the effect of increasing tax charges in the future, relative to 2012, as effective tax relief may not be available for those losses or expenses. Other significant factors affecting the tax charge are described in notes 3.4 and 11.1.

## 11. INCOME TAX (CONTINUED)

### 11.3 RECONCILIATION OF INCOME TAX COSTS TO PROFIT BEFORE TAX

| | 2012 £m | 2011 £m |
|---|---|---|
| **Profit before tax** | **73.2** | 94.4 |
| **Tax at the UK corporation tax rate of 24.5% (2011: 26.5%)** | **17.9** | 25.0 |
| Overseas tax rate differences | **2.9** | (0.4) |
| Withholding taxes | **5.6** | 2.0 |
| Amortisation of intangibles | **4.5** | 2.9 |
| Expenses not deductible for tax purposes, principally demerger costs | **2.6** | — |
| Deferred tax assets not recognised | **(6.8)** | (8.0) |
| Adjustments in respect of prior years | **1.5** | (1.5) |
| **Total income tax costs** | **28.2** | 20.0 |

### 11.4 DEFERRED TAX

| | Accelerated capital allowances £m | Other operating losses £m | Pension costs £m | Intangible assets £m | Timing differences £m | Total £m |
|---|---|---|---|---|---|---|
| As at 1 January 2011 | (0.6) | 3.8 | 0.5 | (22.6) | 3.2 | (15.7) |
| Exchange adjustments | — | (0.1) | — | (0.2) | (0.1) | (0.4) |
| (Charge)/credit to Group income statement | (0.3) | 0.9 | (0.2) | (3.0) | (0.7) | (3.3) |
| As at 1 January 2012 | **(0.9)** | **4.6** | **0.3** | **(25.8)** | **2.4** | **(19.4)** |
| Exchange adjustments | **—** | **(0.5)** | **0.2** | **1.4** | **0.4** | **1.5** |
| Credit to Group statement of comprehensive income | **—** | **—** | **0.2** | **—** | **—** | **0.2** |
| Credit/(charge) to Group income statement | **0.4** | **(1.4)** | **(0.1)** | **(4.5)** | **(1.4)** | **(7.0)** |
| **As at 31 December 2012** | **(0.5)** | **2.7** | **0.6** | **(28.9)** | **1.4** | **(24.7)** |

| | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|
| **Recognised in the Group balance sheet as:** | | | |
| Non-current deferred tax assets | **5.2** | 7.5 | 7.7 |
| Non-current deferred tax liabilities | **(29.9)** | (26.9) | (23.4) |
| **Net total deferred tax liabilities** | **(24.7)** | (19.4) | (15.7) |

Tax loss carry-forwards and other temporary differences of £0.5m (2011: £0.7m) were recognised by subsidiaries reporting a loss in 2011 or 2012. On the basis of approved business plans of these subsidiaries, the Directors consider it probable that the tax loss carry-forwards and temporary differences can be offset against future taxable profits.

# Notes to the Group Financial Statements
continued

## 11. INCOME TAX (CONTINUED)

### 11.4 DEFERRED TAX (CONTINUED)

The total deferred tax asset not recognised as at 31 December 2012 was £139.3m (2011: £125.8m) as analysed below.

| | 2012 £m | 2011 £m |
|---|---|---|
| Operating losses | 76.1 | 79.3 |
| Capital losses available to offset future US capital gains (due to expire 2017) | 18.8 | — |
| Other timing differences | 44.4 | 46.5 |
| **Total deferred tax asset not recognised** | **139.3** | 125.8 |

In accordance with the accounting policy in note 11.1, these items have not been recognised as deferred tax assets on the basis that their future economic benefit is not probable. In total, there was an increase of £13.5m (2011: reduction £3.5m) in net unrecognised deferred tax assets during the year.

As at 31 December 2012, the Group had total operating losses carried forward with a tax value of £78.8m (2011: £83.9m) as analysed below.

| | 2012 £m | 2011 £m |
|---|---|---|
| **Losses available to set against future US taxable income (due to expire 2022 to 2031)** | 61.0 | 64.0 |
| **Losses available to set against future UK taxable income (may be carried forward indefinitely)** | 7.6 | 8.6 |
| **Losses available to set against future taxable income in ROW** | | |
| Due to expire within 5 years | 3.1 | 4.0 |
| Due to expire between 5 and 20 years | 2.9 | 2.4 |
| Carried forward indefinitely | 4.2 | 4.9 |
| **ROW operating losses** | 10.2 | 11.3 |
| **Total net operating losses** | 78.8 | 83.9 |

The above losses available relating to the rest of the world arise in a number of countries and are not individually significant, reflecting the spread of the Group's operations.

As at 31 December 2012, the Group had US tax credits carried forward with a tax value of £17.1m (2011: £17.7m) as follows:

| | 2012 £m | 2011 £m |
|---|---|---|
| US research and experimentation credits (due to expire 2018 to 2031) | 4.8 | 4.9 |
| US foreign tax credits (due to expire 2014 to 2018) | 12.3 | 12.8 |
| **Total US tax credits** | **17.1** | 17.7 |

Due to changes in UK tax law enacted in 2009 exempting dividends received from UK tax, the aggregate amount of temporary differences associated with investments in subsidiaries and interests in joint ventures for which deferred tax liabilities have not been recognised is £nil (2011: £nil).

From 1 April 2012, the UK corporation tax rate reduced to 24%. A further UK corporation tax rate reduction to 23% was substantially enacted on 3 July 2012 and will have effect from 1 April 2013. Accordingly, the Group's closing UK deferred tax liability has been provided using a tax rate of 23%. There was no tax impact of using this lower tax rate on the exceptional tax credit relating to the amortisation of intangible assets in the year to 31 December 2012.

## 12. EARNINGS PER SHARE ("EPS")

### 12.1 PER SHARE AMOUNTS

| | 2012 pence | 2011 pence |
|---|---|---|
| Earnings per share — basic | **16.2** | 27.0 |
| — diluted | **16.2** | 26.5 |

### 12.2 EARNINGS FOR EPS

Basic and diluted EPS are based upon profit for the year as reported in the Group income statement, of £45.0m (2011: £74.4m).

### 12.3 WEIGHTED AVERAGE NUMBER OF SHARES

| | 2012 m | 2011 m |
|---|---|---|
| **For calculating basic EPS** | **277.5** | 275.7 |
| Adjustment for dilutive potential ordinary shares | **0.9** | 5.2 |
| **For calculating diluted EPS** | **278.4** | 280.9 |

Prior to the demerger from Vesuvius plc on 19 December 2012, Alent was part of Cookson Group plc. Accordingly, Alent's weighted average share capital has been calculated by reference to movements in the number of issued ordinary shares of Cookson Group plc for the period from 1 January 2011 to 19 December 2012 and by reference to movements in the number of issued ordinary shares of Alent plc with effect from 19 December 2012.

For the purposes of calculating diluted EPS, the weighted average number of ordinary shares is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares relating to the Company's share-based payment plans. Potential ordinary shares are only treated as dilutive when their conversion to ordinary shares would decrease earnings per share, or increase loss per share, from continuing operations.

Other than the ordinary shares shown as being dilutive in the table above, the Company had no other outstanding options or share awards in relation to its share-based payment plans that could dilute EPS in the future, but which are not included in the calculation of diluted EPS above because they were anti-dilutive in the years presented.

## 13. FREE CASH FLOW

| | 2012 £m | 2011 £m |
|---|---|---|
| Net cash inflow from operating activities | **39.6** | 76.9 |
| Additional funding contributions to Group pension plans | **2.1** | 1.7 |
| Capital expenditure | **(21.9)** | (16.1) |
| Proceeds from the sale of property, plant and equipment | **1.8** | — |
| Dividends received from joint ventures | **0.3** | 1.2 |
| **Free cash flow** | **21.9** | 63.7 |

# Notes to the Group Financial Statements
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## 14. CASH AND CASH EQUIVALENTS

| | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|
| Short-term deposits | — | — | 47.1 |
| Cash at bank and in hand | 81.5 | 75.9 | 65.7 |
| **Cash and short-term deposits** | 81.5 | 75.9 | 112.8 |
| Bank overdrafts | (0.9) | (15.3) | (9.4) |
| **Cash and cash equivalents in the Group statement of cash flows** | 80.6 | 60.6 | 103.4 |

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Group statement of cash flows.

## 15. RECONCILIATION OF MOVEMENT IN NET DEBT

| | Balance as at 1 January 2012 £m | Foreign exchange adjustments £m | Non-cash movements £m | Cash flow £m | Balance as at 31 December 2012 £m |
|---|---|---|---|---|---|
| **Cash and cash equivalents** | | | | | |
| Cash at bank and in hand | 75.9 | (2.0) | — | 7.6 | 81.5 |
| Bank overdrafts | (15.3) | — | — | 14.4 | (0.9) |
| | | | | 22.0 | |
| **Borrowings, excluding bank overdrafts** | | | | | |
| Current | (8.8) | — | 32.7 | (24.1) | (0.2) |
| Non-current | (0.3) | — | — | (227.4) | (227.7) |
| Capitalisation of borrowing costs paid in the year | — | — | 2.9 | — | 2.9 |
| | | | | (251.5) | |
| **Net cash/(debt)** | 51.5 | (2.0) | 35.6 | (229.5) | (144.4) |

Net cash/(debt) is a measure of the Group's net indebtedness to banks and other external financial institutions and comprises the total of cash at bank and in hand and bank overdrafts and current and non-current interest-bearing borrowings.

Immediately prior to the demerger from Vesuvius, Alent owed Vesuvius £240.1m. Alent repaid £207.4m of this amount using cash drawn under its new bank facility and, in order to effect the correct split of Cookson Group plc's debt between Alent and Vesuvius as determined by the demerger agreement, the balance outstanding of £32.7m was forgiven by Vesuvius and is shown as a non-cash movement in the table above.

## 16. PROPERTY, PLANT AND EQUIPMENT

### 16.1 ACCOUNTING POLICY

Freehold land is carried at cost less accumulated impairment losses. Other items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Costs are capitalised only when it is probable that they will result in future economic benefits flowing to the Group and when they can be measured reliably. All other repairs and maintenance expenditure is charged to the Group income statement in the period in which it is incurred.

Freehold land is not depreciated as it has an infinite life. Depreciation on other items of property, plant and equipment begins when the asset is available for use and is therefore not charged on construction in progress. Depreciation is charged to the Group income statement on a straight-line basis so as to write off the cost less residual value of the asset over its estimated useful life as follows:

| Asset category | Estimated useful life |
|---|---|
| Freehold property | between 10 and 50 years |
| Leasehold property | the term of the lease |
| Plant and equipment — motor vehicles | between 1 and 5 years |
| — information technology equipment | between 1 and 5 years |
| — other | between 5 and 15 years |

The depreciation method used, residual values and estimated useful lives are reviewed and changed, if appropriate, at least at each financial year-end. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. As described in note 18.1, an asset's carrying amount is immediately written down to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. Gains and losses arising on disposals are determined by comparing the sales proceeds with the carrying amount and are recognised in the Group income statement.

# Notes to the Group Financial Statements
continued

## 16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### 16.2 MOVEMENT IN NET BOOK VALUE

| | Freehold property £m | Leasehold property £m | Plant and equipment £m | Construction in progress £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 1 January 2011 | 55.2 | 14.2 | 128.3 | 9.3 | 207.0 |
| Exchange adjustments | (0.6) | (0.6) | (1.8) | 0.5 | (2.5) |
| Capital expenditure additions | 0.2 | 1.2 | 6.0 | 8.7 | 16.1 |
| Disposals | (0.1) | (0.1) | (3.0) | — | (3.2) |
| Business disposals | — | (0.7) | — | — | (0.7) |
| Reclassifications | 0.2 | 0.2 | 2.6 | (3.0) | — |
| As at 1 January 2012 | **54.9** | **14.2** | **132.1** | **15.5** | **216.7** |
| Exchange adjustments | **(2.1)** | **(0.3)** | **(5.2)** | **(0.6)** | **(8.2)** |
| Capital expenditure additions | **5.6** | **0.4** | **6.1** | **9.8** | **21.9** |
| Disposals | **(4.4)** | **(0.1)** | **(3.3)** | — | **(7.8)** |
| Reclassifications | **(1.6)** | **2.6** | **5.5** | **(6.5)** | — |
| **As at 31 December 2012** | **52.4** | **16.8** | **135.2** | **18.2** | **222.6** |
| **Accumulated depreciation and impairment losses** | | | | | |
| As at 1 January 2011 | 33.6 | 6.1 | 97.6 | — | 137.3 |
| Exchange adjustments | — | (0.4) | (1.7) | — | (2.1) |
| Depreciation charge | 1.2 | 0.9 | 6.4 | — | 8.5 |
| Disposals | — | (0.1) | (2.3) | — | (2.4) |
| Business disposals | — | (0.4) | — | — | (0.4) |
| Reclassifications | — | 0.4 | (0.4) | — | — |
| As at 1 January 2012 | **34.8** | **6.5** | **99.6** | **—** | **140.9** |
| Exchange adjustments | **(1.3)** | **(0.3)** | **(3.4)** | — | **(5.0)** |
| Depreciation charge | **0.8** | **1.5** | **6.6** | — | **8.9** |
| Disposals | **(2.9)** | — | **(3.2)** | — | **(6.1)** |
| Reclassifications | **(1.4)** | **1.5** | **(0.1)** | — | — |
| **As at 31 December 2012** | **30.0** | **9.2** | **99.5** | — | **138.7** |
| **Net book value as at 31 December 2012** | **22.4** | **7.6** | **35.7** | **18.2** | **83.9** |
| Net book value as at 31 December 2011 | 20.1 | 7.7 | 32.5 | 15.5 | 75.8 |
| Net book value as at 1 January 2011 | 21.6 | 8.1 | 30.7 | 9.3 | 69.7 |

The net book value of assets held under finance leases as at 31 December 2012, 31 December 2011 and 1 January 2011 was not material.

## 17. INTANGIBLE ASSETS

Intangible assets comprise goodwill that has been acquired through business combinations.

### 17.1 ACCOUNTING POLICY

Goodwill arising in a business combination is initially recognised as an asset at cost, measured as the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount of any non-controlling interest acquired over the net of the acquisition-date fair value amounts of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Goodwill is subsequently measured at cost less accumulated impairment losses, with impairment testing carried out annually, or more frequently when there is an indication that the cash-generating unit to which the goodwill has been allocated may be impaired. On disposal of a business, the attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

### 17.2 MOVEMENT IN NET BOOK VALUE

| | **2012 Goodwill £m** | 2011 Goodwill £m |
|---|---|---|
| **Cost and net book value** | | |
| As at 1 January | **298.8** | 301.0 |
| Exchange adjustments | **(6.6)** | (2.2) |
| Business combinations (note 32) | **2.8** | — |
| **As at 31 December** | **295.0** | 298.8 |

### 17.3 ANALYSIS OF GOODWILL BY CASH-GENERATING UNIT ("CGU")

Goodwill acquired in a business combination is allocated to each of the Group's CGUs expected to benefit from the synergies of the combination. For the purposes of impairment testing, the Directors consider that the Group has two CGUs: the Assembly Materials and Surface Chemistries businesses. These CGUs represent the lowest level within the Group at which goodwill is monitored.

| | **2012 £m** | 2011 £m | 2010 £m |
|---|---|---|---|
| Surface Chemistries | **226.8** | 231.3 | 233.3 |
| Assembly Materials | **68.2** | 67.5 | 67.7 |
| **Total goodwill** | **295.0** | 298.8 | 301.0 |

# Notes to the Group Financial Statements
continued

## 18. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

### 18.1 ACCOUNTING POLICY

At each balance sheet date, the Directors review the carrying value of the Group's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where it is not feasible to estimate the recoverable amount of an individual asset, the Directors estimate the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

Goodwill acquired in a business combination is allocated to each of the Group's CGUs expected to benefit from the synergies of the combination and the Directors carry out annual impairment testing of the carrying value of its CGUs, to assess the need for any impairment of the carrying value of goodwill and other intangible and tangible assets associated with these CGUs.

For the purpose of impairment testing, the recoverable amount of an asset or CGU is the higher of (i) its fair value less costs to sell and (ii) its value in use. If the recoverable amount of a CGU is less than the carrying amount of that CGU, the resulting impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is not reversed in a subsequent period. An impairment loss recognised in a prior year for an asset other than goodwill may be reversed where there has been a change in the estimates used to measure the asset's recoverable amount since the impairment loss was recognised. The value in use calculations of the Group's CGUs are based on detailed business plans covering a three year period from the balance sheet date, higher level assumptions covering a further two year period and perpetuity calculations beyond this five year projection period. The cash flows in the calculations are discounted to their current value using pre-tax discount rates.

### 18.2 KEY ASSUMPTIONS

The key assumptions used in determining value in use are return on sales, return on net sales value, growth rates and discount rates. Return on sales and return on net sales value assumptions are based on historical financial information, adjusted to factor in the anticipated impact of restructuring and rationalisation plans already announced at the balance sheet date.

Growth rates are determined with reference to: current market conditions; external forecasts and historical trends for the Group's key end-markets of electronics and automotive; and expected growth in output within the industries in which each CGU operates. A perpetuity growth rate of 2.5% (2011: 2.5%; 2010: 3.0%) has been applied based on the long-term growth rates experienced in the Group's end-markets and external forecasts. The Group's projections are based on historical trends and external forecasts.

Discount rates are calculated for each CGU, reflecting market assessments of the time value of money and the risks specific to each CGU. The pre-tax discount rate used for the Assembly Materials CGU was 13.8% (2011: 13.8%; 2010: 12.5%) and for the Surface Chemistries CGU 14.0% (2011: 15.0%; 2010: 14.1%).

### 18.3 GOODWILL IMPAIRMENT

In assessing goodwill for potential impairment as at 31 December 2012, the Directors made use of detailed calculations of the recoverable amount of the Group's CGUs as at 31 December 2012. Those calculations resulted in recoverable amounts significantly higher than the carrying values of each of the Group's CGUs and consequently no impairment charges were recognised.

## 19. TRADE AND OTHER RECEIVABLES

### 19.1 ACCOUNTING POLICY

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, less impairment losses.

### 19.2 ANALYSIS OF TRADE AND OTHER RECEIVABLES

| | 2012 | | | 2011 | | | 2010 |
|---|---|---|---|---|---|---|---|
| | Gross £m | Impairment £m | Net £m | Gross £m | Impairment £m | Net £m | Net £m |
| Trade receivables — current | **104.4** | **(0.1)** | **104.3** | 107.9 | (0.2) | 107.7 | 125.1 |
| — 1 to 30 days past due | **11.2** | **(0.2)** | **11.0** | 8.8 | (0.3) | 8.5 | 8.1 |
| — 31 to 60 days past due | **1.9** | **(0.4)** | **1.5** | 1.8 | (0.5) | 1.3 | 1.8 |
| — 61 to 90 days past due | **0.4** | **(0.1)** | **0.3** | 0.8 | (0.2) | 0.6 | 0.6 |
| — over 90 days past due | **3.7** | **(3.4)** | **0.3** | 5.2 | (3.0) | 2.2 | 0.8 |
| Trade receivables | **121.6** | **(4.2)** | **117.4** | 124.5 | (4.2) | 120.3 | 136.4 |
| Other receivables | | | **15.5** | | | 17.9 | 15.9 |
| Prepayments and accrued income | | | **5.1** | | | 7.5 | 4.4 |
| **Total trade and other receivables** | | | **138.0** | | | 145.7 | 156.7 |

All of the Group's operating companies have policies and procedures in place to assess the creditworthiness of the customers with whom they do business. Where objective evidence exists that a trade receivable balance may be impaired, provision is made for the difference between its carrying amount and the present value of the estimated cash that will be recovered. Evidence of impairment may include such factors as the customer being in breach of contract, or entering bankruptcy or financial reorganisation proceedings. Impairment provisions are assessed on an individual customer basis for all significant outstanding balances and collectively for all remaining balances, based upon historical loss experience. Historical experience has shown that the Group's trade receivable provisions are maintained at levels that are sufficient to absorb actual bad debt write-offs, without being excessive.

### 19.3 MOVEMENTS ON IMPAIRMENT PROVISIONS

| | 2012 £m | 2011 £m |
|---|---|---|
| As at 1 January | **4.2** | 5.9 |
| Exchange adjustments | **(0.1)** | (0.1) |
| Charge for the year | **1.8** | 0.7 |
| Receivables written off during the year as uncollectable | **(1.6)** | (1.1) |
| Unused amounts reversed | **(0.1)** | (1.2) |
| **As at 31 December** | **4.2** | 4.2 |

Impairment charges, write-offs and the reversal of unused amounts shown in the table above are charged or credited as appropriate within administration, selling and distribution costs in the Group income statement. All of the provision for impairment of trade receivables at 31 December 2012 of £4.2m (2011: £4.2m) related to balances that were impaired on an individual basis.

Due to the large number of customers that the Group transacts its business with, none of which represent a significant proportion of the total outstanding trade receivables balance, the Group is not exposed to any significant concentration of credit risk. There is no significant difference between the fair value of the Group's trade and other receivable balances and the amount at which they are reported in the Group balance sheet.

# Notes to the Group Financial Statements

continued

## 20. INVENTORIES

### 20.1 ACCOUNTING POLICY

Inventories are stated at the lower of cost (using the first in, first out method) and net realisable value. Cost comprises expenditure incurred in purchasing or manufacturing inventories together with all other costs directly incurred in bringing the inventory to its present location and condition and, where appropriate, attributable production overheads based on normal activity levels. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. The amount of any write-down of inventories to net realisable value is recognised as an expense in the year in which the write-down occurs.

### 20.2 ANALYSIS OF INVENTORIES

| | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|
| Raw materials | 14.3 | 13.6 | 15.9 |
| Work-in-progress | 11.9 | 12.1 | 10.9 |
| Finished goods | 27.3 | 24.3 | 22.9 |
| **Total inventories** | 53.5 | 50.0 | 49.7 |

The cost of inventories recognised as an expense and included in cost of sales in the income statement during the year was £408.7m (2011: £505.0m).

As at 31 December 2012, in addition to the inventory recorded in the balance sheet, the Group held £13.8m (2011: £10.6m) of precious metals on consignment terms. Alent has entered into precious metal consignment arrangements with precious metals consigning entities (the "Consignors"). The metal which the Group uses in the manufacture of its finished products for customers may be purchased from a Consignor and sold concurrently to the customer as of the same metals valuation date. In addition, customers may supply metal which will be toll manufactured by the Group. In the later case, the Group will only invoice customers for the value-added fabrication services. As the Consignors retain title and associated risks and rewards of ownership under these arrangements, the value of the physical metal so held is not recognised in the balance sheet. Consequently, the obligations in respect of the consigned metal are not recognised as a liability in the Group balance sheet.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

### 21.1 ACCOUNTING POLICY

The Group uses derivative financial instruments ("derivatives") in the form of forward foreign currency contracts and forward commodity contracts to manage the effects of its exposure to foreign exchange risk and commodity price risk. The way in which derivatives are used to manage the Group's financial risk is detailed in note 26.

Derivatives are measured at fair value. The fair value of forward foreign currency contracts and forward commodity contracts is calculated using market prices at the balance sheet date.

The method of recognising the gain or loss on remeasurement to fair value depends on whether the derivative is designated as a hedging instrument for hedge accounting purposes and, if so, the nature of the item being hedged. Strict conditions have to be satisfied in order to qualify for hedge accounting, including a determination both at inception of the hedge and on an ongoing basis that the hedge is expected to be highly effective in achieving offsetting changes in fair values or cash flows attributable to the hedged risk. The change in fair value of a derivative that is not designated as a hedging instrument for hedge accounting purposes is recognised within operating profit in the Group income statement. Wherever possible, the Group avoids the administrative burden of hedge accounting, and does not designate a derivative as a hedge when, in the absence of hedge accounting, the change in fair value of the hedged item is itself recognised within operating profit in the Group income statement in the same period as the change in fair value of the derivative. No derivatives are held for speculative purposes.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### 21.1 ACCOUNTING POLICY (CONTINUED)

*Cash flow hedges*

The effective part of any gain or loss on a derivative that is designated as a cash flow hedge is recognised in other comprehensive income and presented in the hedging reserve in equity. The ineffective part of any gain or loss is recognised immediately within operating profit. When the transaction that was being hedged is realised and affects profit or loss, the cumulative gain or loss on the derivative is removed from the hedging reserve and recognised in the income statement in the same period.

*Fair value hedges*

The change in fair value of a derivative that is designated as a fair value hedge is recognised within operating profit in the income statement. The carrying amount of the hedged item is adjusted by the change in its fair value that is attributable to the hedged risk and this adjustment is recognised within operating profit in the income statement.

### 21.2 ANALYSIS OF DERIVATIVE FINANCIAL INSTRUMENTS

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| Cash flow hedges | 0.2 | — | — | (1.6) |
| Fair value hedges | 0.1 | (0.3) | 2.5 | (0.1) |
| **Total derivative financial instruments** | 0.3 | (0.3) | 2.5 | (1.7) |

All of the fair values shown in the table above have been calculated using quoted prices from active markets. Cash flows in respect of the cash flow hedges shown in the table above will all occur in 2013. All of the £0.3m (2011: £1.7m) of derivative liabilities reported in the table above will mature within a year of the balance sheet date.

*Cash flow hedges*

Cash flow hedges in the table above include: forward foreign currency contracts used to hedge the currency risk in forecast sales or purchases; and forward metal purchase contracts used to hedge the cash flow risk relating to future sales arising from fluctuation in commodity metals prices.

*Fair value hedges*

Fair value hedges in the table above comprise forward foreign currency contracts used to hedge the currency risk in payables and receivables and forward metal sales contracts used to hedge the fair value risk relating to the balance sheet value of inventory arising from fluctuation in commodity metals prices.

## 22. ISSUED SHARE CAPITAL

### 22.1 ACCOUNTING POLICY

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### 22.2 ANALYSIS OF ISSUED SHARE CAPITAL

Detailed information on the Company's issued share capital is given in note 7 of the Notes to the Company Financial Statements.

Further information relating to the Company's share capital is given in the Directors' Report on page 72.

# Notes to the Group Financial Statements
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## 23. OTHER RESERVES

| | Other capital reserve £m | Other reserve £m | Hedging reserve £m | Translation reserve £m | Total £m |
|---|---|---|---|---|---|
| As at 1 January 2011 | 444.7 | (862.4) | — | — | (417.7) |
| Exchange differences on translation of the net assets of foreign operations | — | — | — | (2.4) | (2.4) |
| Change in fair value of cash flow hedges | — | — | (1.6) | — | (1.6) |
| As at 1 January 2012 | **444.7** | **(862.4)** | **(1.6)** | **(2.4)** | **(421.7)** |
| Exchange differences on translation of the net assets of foreign operations | **—** | **—** | **—** | **(11.0)** | **(11.0)** |
| Change in fair value of cash flow hedges | **—** | **—** | **1.9** | **—** | **1.9** |
| **As at 31 December 2012** | **444.7** | **(862.4)** | **0.3** | **(13.4)** | **(430.8)** |

*Other capital reserve*
On 19 December 2012, Alent plc issued 278,448,752 ordinary shares of £1.50 each to the public shareholders of Vesuvius plc in return for the receipt of the entire share capital of Alent Investments Limited (note 2.2). Alent plc applied merger relief under section 612 of the Companies Act 2006 to this transaction and, accordingly, the excess of the total market value of Alent Investments Limited, being £862.4m, over the nominal value of the shares issued of £417.7m has been recorded in the other capital reserve.

*Other reserve*
The other reserve in the table above arose as a result of applying reverse acquisition accounting following the demerger of the Alent Group from Cookson Group plc, and represents the difference between the capital reserves of the legal acquirer of the Alent Group, Alent plc, and those of the legal acquiree, Alent Investments Limited (note 2.2).

*Translation reserve*
The translation reserve in the table above comprises all foreign exchange differences attributable to the owners of the parent. These exchange differences arise from the translation of the financial statements of foreign operations and from the translation of financial instruments that hedge the Group's net investment in foreign operations. In addition to foreign exchange differences attributable to the owners of the parent, the Group statement of comprehensive income includes foreign exchange differences attributable to non-controlling interests.

## 24. RETAINED EARNINGS

| | Share option reserve £m | Other retained earnings £m | Total retained earnings £m |
|---|---|---|---|
| As at 1 January 2011 | 1.7 | 497.6 | 499.3 |
| Profit for the year | — | 74.4 | 74.4 |
| Net actuarial loss on employee benefits plans | — | (5.5) | (5.5) |
| Recognition of share-based payments | 1.0 | — | 1.0 |
| Release of share option reserve on exercised and lapsed options | (0.7) | 0.7 | — |
| Capital contribution to Vesuvius plc | — | (110.5) | (110.5) |
| As at 1 January 2012 | **2.0** | **456.7** | **458.7** |
| Profit for the year | **—** | **45.0** | **45.0** |
| Net actuarial losses on employee benefits plans | **—** | **(3.5)** | **(3.5)** |
| Recognition of share-based payments | **1.0** | **—** | **1.0** |
| Release of share option reserve on exercised and lapsed options | **(1.1)** | **1.1** | **—** |
| Income tax on items recognised in other comprehensive income | **—** | **0.2** | **0.2** |
| Court approved capital reduction | **—** | **389.9** | **389.9** |
| Capital contribution to Vesuvius plc | **—** | **(245.0)** | **(245.0)** |
| Capital contributions from Vesuvius plc | **—** | **32.7** | **32.7** |
| **As at 31 December 2012** | **1.9** | **677.1** | **679.0** |

## 25. DIVIDENDS

A proposed final dividend for the year ended 31 December 2012 of £15.3m (2011: £nil), equivalent to 5.5 pence (2011: nil pence) per ordinary share, is subject to approval by shareholders at the Company's Annual General Meeting and has not been included as a liability in these financial statements. If approved by shareholders, the dividend will be paid on 13 June 2013 to ordinary shareholders on the register at 10 May 2013.

## 26. FINANCIAL RISK MANAGEMENT

### 26.1 ACCOUNTING POLICY

*(a) Non-derivative financial instruments*

Loans and borrowings are initially recognised at fair value plus directly attributable transaction costs. After initial recognition they are measured at amortised cost, using the effective interest method.

*(b) Foreign currencies*

The individual financial statements of each Group entity are prepared in their functional currency, which is the currency of the primary economic environment in which that entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are translated into pounds sterling, which is the presentational currency of the Group.

*Reporting foreign currency transactions in functional currency*

Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each subsequent balance sheet date:

(ii) Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement or retranslation of monetary items are recognised in the Group income statement; and
(iii) Non-monetary items measured at historical cost in a foreign currency are not retranslated.

*Translation from functional currency to presentational currency*

When the functional currency of a Group entity is different from the Group's presentational currency (pounds sterling), its results and financial position are translated into the presentational currency as follows:

(i) Assets and liabilities are translated using exchange rates prevailing at the balance sheet date;
(ii) Income and expense items are translated at average exchange rates for the year, except where the use of such average rates does not approximate the exchange rate at the date of a specific transaction, in which case the transaction rate is used; and
(iii) All resulting exchange differences are recognised in other comprehensive income and presented in the translation reserve in equity and are reclassified to profit or loss in the period in which the foreign operation is disposed.

*Net investment in foreign operations*

Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are initially recognised in other comprehensive income and presented in the translation reserve in equity and reclassified to profit or loss on disposal of the net investment.

# Notes to the Group Financial Statements
continued

## 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 26.2 FINANCIAL RISK FACTORS

The Group's treasury department, acting in accordance with policies approved by the Board, is principally responsible for managing the financial risks faced by the Group. The Group's activities expose it to a variety of financial risks, the most significant of which are market risk and liquidity risk.

*(a) Market risk*

Market risk is the risk that either the fair values or the cash flows of the Group's financial instruments may fluctuate because of changes in market prices. The Group is principally exposed to market risk through fluctuations in exchange rates ("currency risk") and interest rates ("interest rate risk").

*Currency risk*

The Group is exposed to currency risk on its borrowings and financial assets (being cash and short-term deposits) that are denominated in currencies other than pounds sterling. The Group's general policy is proportionally to match the currency profile of its core borrowings with the currency profile of its earnings and net assets achieved, where necessary, by the use of forward foreign exchange contracts ("FX swaps"). The currency profile of the Group's borrowings and financial assets is shown in the table below.

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Borrowings £m | Financial assets £m | Net debt £m | Borrowings £m | Financial assets £m | Net debt £m |
| Chinese renminbi | — | 29.8 | 29.8 | — | 24.7 | 24.7 |
| Euro | (0.1) | 14.2 | 14.1 | (0.8) | 14.7 | 13.9 |
| Sterling | (228.2) | 16.5 | (211.7) | (13.9) | 2.6 | (11.3) |
| United States dollar | (0.3) | 7.5 | 7.2 | (0.5) | 5.2 | 4.7 |
| Other | (0.2) | 13.5 | 13.3 | (9.2) | 28.7 | 19.5 |
| Capitalised borrowing costs | 2.9 | — | 2.9 | — | — | — |
| **As at 31 December** | (225.9) | 81.5 | (144.4) | (24.4) | 75.9 | 51.5 |

Based upon the currency profile shown in the table above, while not impacting reported profit, the change in net debt arising from a 10% strengthening of sterling would reduce reported equity by £5.9m (2011: £5.7m) and a corresponding 10% weakening of sterling would increase equity by £7.2m (2011: £7.0m).

## 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 26.2 FINANCIAL RISK FACTORS (CONTINUED)

The tables below show the net unhedged monetary assets and liabilities of Group companies that are not denominated in their functional currency and which could give rise to exchange gains and losses in the Group income statement.

| | Net unhedged monetary assets/(liabilities) | | | | | |
|---|---|---|---|---|---|---|
| | Sterling £m | US dollar £m | Euro £m | Renminbi £m | Other £m | Total £m |
| **Functional currency** | | | | | | |
| Sterling | **—** | **(0.4)** | **(0.1)** | **—** | **—** | **(0.5)** |
| United States dollar | **(0.3)** | **—** | **(0.3)** | **—** | **1.9** | **1.3** |
| Euro | **—** | **0.5** | **—** | **—** | **—** | **0.5** |
| Chinese renminbi | **—** | **4.7** | **—** | **—** | **(0.4)** | **4.3** |
| Other | **(0.1)** | **12.8** | **0.2** | **1.6** | **(0.5)** | **14.0** |
| **As at 31 December 2012** | **(0.4)** | **17.6** | **(0.2)** | **1.6** | **1.0** | **19.6** |

| | Net unhedged monetary assets/(liabilities) | | | | | |
|---|---|---|---|---|---|---|
| | Sterling £m | US dollar £m | Euro £m | Renminbi £m | Other £m | Total £m |
| Functional currency | | | | | | |
| Sterling | — | — | 0.1 | — | — | 0.1 |
| United States dollar | — | — | (0.5) | — | 4.1 | 3.6 |
| Euro | — | 0.2 | — | — | — | 0.2 |
| Chinese renminbi | — | 3.3 | — | — | — | 3.3 |
| Other | — | 6.0 | (0.7) | 6.8 | (0.3) | 11.8 |
| As at 31 December 2011 | — | 9.5 | (1.1) | 6.8 | 3.8 | 19.0 |

*Interest rate risk*

The Group's interest rate risk principally arises in relation to its net financial debt.

The interest rate profile of the Group's borrowings and net financial debt is detailed in the tables below.

| | Floating rate financial liabilities £m | Financial assets £m | Net financial assets/(debt) £m |
|---|---|---|---|
| Chinese renminbi | **—** | **29.8** | **29.8** |
| Euro | **(0.1)** | **14.2** | **14.1** |
| Sterling | **(228.2)** | **16.5** | **(211.7)** |
| United States Dollar | **(0.3)** | **7.5** | **7.2** |
| Other | **(0.2)** | **13.5** | **13.3** |
| Capitalised borrowing costs | **2.9** | **—** | **2.9** |
| **As at 31 December 2012** | **(225.9)** | **81.5** | **(144.4)** |

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# Notes to the Group Financial Statements
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## 26. FINANCIAL RISK MANAGEMENT (CONTINUED)
### 26.2 FINANCIAL RISK FACTORS (CONTINUED)

| | Floating rate financial liabilities £m | Financial assets £m | Net financial assets/(debt) £m |
|---|---|---|---|
| Chinese renminbi | — | 24.7 | 24.7 |
| Euro | (0.8) | 14.7 | 13.9 |
| Sterling | (13.9) | 2.6 | (11.3) |
| United States dollar | (0.5) | 5.2 | 4.7 |
| Other | (9.2) | 28.7 | 19.5 |
| As at 31 December 2011 | (24.4) | 75.9 | 51.5 |

The floating rate financial liabilities shown in the tables above bear interest at at various rates. The financial assets attract floating rate interest at various rates.

Based upon the interest rate profile of the Group's financial assets and liabilities shown in the tables above, a 1% increase in market interest rates would increase both the net finance costs charged in the Group income statement and the net interest paid in the Group statement of cash flows by £1.4m (2011: decrease £0.5m) and a 1% reduction in market interest rates would decrease both the net finance costs charged in the Group income statement and the net interest paid in the Group statement of cash flows by £1.4m (2011: increase £0.5m). Similarly, a 1% increase in market interest rates would result in a decrease of £nil (2011: £nil) in the fair value of the Group's net debt and a 1% decrease in market interest rates would result in an increase of £nil (2011: £nil) in the fair value of the Group's net debt.

*(b) Liquidity risk*

Liquidity risk is the risk that the Group might have difficulties in meeting its financial obligations. The Group manages this risk by ensuring that it maintains sufficient levels of committed borrowing facilities and cash and cash equivalents to ensure that it can meet its operational cash flow requirements and any maturing financial liabilities, while at all times operating within its financial covenants. The level of operational headroom provided by the Group's committed borrowing facilities is reviewed at least annually as part of the Group's three year planning process. Where this process indicates a need for additional finance, this is normally addressed 12 to 18 months in advance by means of either additional committed bank facilities or raising finance in the capital markets.

As at 31 December 2012, the Group had committed borrowing facilities of £300m (2011: £nil), of which £72.5m (2011: £nil) were undrawn. These undrawn facilities are due to expire in September 2017.

The maturity analysis of the Group's gross borrowings is shown in the tables below.

| | Non-current | | Current | | Total | |
|---|---|---|---|---|---|---|
| | **2012 £m** | 2011 £m | **2012 £m** | 2011 £m | **2012 £m** | 2011 £m |
| Loans and overdrafts | **227.5** | — | **0.9** | 24.0 | **228.4** | 24.0 |
| Obligations under finance leases | **0.2** | 0.3 | **0.2** | 0.1 | **0.4** | 0.4 |
| Capitalised borrowing costs | **(2.1)** | — | **(0.8)** | — | **(2.9)** | — |
| **Total interest-bearing borrowings** | **225.6** | 0.3 | **0.3** | 24.1 | **225.9** | 24.4 |

## 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 26.2 FINANCIAL RISK FACTORS (CONTINUED)

| | 2012 £m | 2011 £m |
|---|---|---|
| **Interest-bearing borrowings repayable** | | |
| On demand or within one year | 1.1 | 24.1 |
| In the second year | 0.1 | 0.2 |
| In the third year | 0.1 | 0.1 |
| In the fourth year | — | — |
| In the fifth year | 227.5 | — |
| Capitalised borrowing costs | (2.9) | — |
| **Total interest-bearing borrowings** | 225.9 | 24.4 |

### 26.3 CAPITAL MANAGEMENT

The Group considers its capital to be equal to the sum of its total equity and net debt. Following the demerger from Cookson Group plc in December 2012, the mix of the Group's capital has changed considerably, while the overall amount of capital has remained relatively constant. At 31 December 2011, prior to the demerger, the Group's capital amounted to £403.2m, comprising £454.7m of equity balances and £51.5m of net cash. As at 31 December 2012, the Group's capital had increased to £420.4m, comprising £276.0m of equity balances and £144.4m of net debt. The reduction in equity balances and the increase in net debt since 31 December 2011, respectively reflect (a) the net capital contributions made to Vesuvius during the year and (b) the impact of the apportionment of Cookson Group plc's net debt between Alent and Vesuvius as part of the demerger process.

The Group monitors its capital using a number of key performance indicators, including free cash flow, average working capital to sales ratios, net debt to EBITDA ratios, RONA and ROI (note 4). The Group's objectives when managing its capital are:

- to ensure that the Group and all of its businesses are able to operate as going concerns and ensure that the Group operates within the financial covenants contained within its debt facilities;
- to maximise shareholder value through maintaining an appropriate balance between the Group's equity and net debt;
- to have available the necessary financial resources to allow the Group to invest in areas that may deliver acceptable future returns; and
- to maintain sufficient financial resources to mitigate against risks and unforeseen events.

The Group operated comfortably within the requirements of its debt covenants and has substantial liquidity headroom within its committed debt facilities. Details of the Group's covenant compliance and committed debt facilities can be found in the Financial Review on page 22.

## 27. EMPLOYEE BENEFITS

### 27.1 ACCOUNTING POLICY

The net liability recognised in the Group balance sheet for the Group's defined benefits plans is the present value of the defined benefit obligation at the balance sheet date as adjusted for unrecognised past service costs, less the fair value of the plan assets. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method and by discounting the estimated future cash flows using interest rates on high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Any asset recognised in respect of a surplus arising from this calculation is limited to the sum of unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

The expense for the Group's defined benefits plans is recognised in the Group income statement as shown in note 27.7. Actuarial gains and losses arising on the assets and liabilities of the plans are reported within the Group statement of comprehensive income; and gains and losses arising on settlements and curtailments are recognised in the Group income statement in the same line as the item that gave rise to the settlement or curtailment or, if material, separately reported as a component of profit from operations.

# Notes to the Group Financial Statements
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## 27. EMPLOYEE BENEFITS (CONTINUED)

### 27.2 GROUP POST-RETIREMENT PLANS

The Group operates a number of pension plans around the world, both of the defined benefits and defined contribution type, and accounts for them in accordance with IAS 19.

*(a) Defined benefits pension plans*

The Group's principal defined benefits pension plans are in the US. The assets of these plans are held separately from the Group in trustee-administered funds. The trustees are required to act in the best interests of the plans' beneficiaries. The Group also has defined benefits pension plans in other territories but these are not individually material in relation to the Group as a whole.

The Group's US defined benefit plans are closed to new members and to future benefit accrual for existing members. The main US plan, the Retirement Security Plan, has characteristics similar to defined contribution plans, but with a minimum performance level guaranteed by the Group on the members' accounts. The cash balance rate assumption in the table in note 27.3(b) refers to this minimum return. The Group's US defined benefits plans provide retirement benefits based on final salary or a fixed benefit. Actuarial valuations of the US plan are carried out each year and the last full valuation was carried out as at 31 December 2011. At that date, the market value of the plan assets was £42.8m, representing a funding level of 73% of funded accrued plan benefits (using the projected unit method of valuation) of £58.9m. Funding levels for the Group's US defined benefit plans are normally based upon annual valuations carried out by independent qualified actuaries and are governed by US government regulations.

*(b) Defined contribution pension plans*

The total expense for the Group's defined contribution plans in the Group income statement amounted to £5.6m (2011: £5.3m) and represents the contributions payable for the year by the Group to the plans.

### 27.3 POST-RETIREMENT LIABILITY VALUATION

The assumptions used in calculating the costs and obligations of the Group's defined benefits pension plans, as detailed below, are set by the Directors after consultation with independent professionally qualified actuaries.

*(a) Mortality assumptions*

The mortality assumptions used in the actuarial valuations of the Group's US defined benefits pension liabilities are summarised in the table below and have been selected to reflect the characteristics and experience of the membership of those plans. The assumptions used have been based on the standard RP2000CH mortality tables, projected 64 years for non-pensioners and 33 years for pensioners using projection scale AA.

| Life expectancy of US pension plans members | | 2012 years | 2011 years |
|---|---|---|---|
| Age to which current pensioners are expected to live | — Men | **84.6** | 84.6 |
| | — Women | **86.9** | 86.9 |
| Age to which future pensioners are expected to live | — Men | **86.6** | 86.6 |
| | — Women | **89.1** | 89.1 |

*(b) Other principal US pension plans actuarial valuation assumptions*

| | 2012 % p.a. | 2011 % p.a. |
|---|---|---|
| Discount rate | **3.65** | 4.25 |
| Cash balance rate | **5.25** | 5.25 |
| Expected asset return — equities | **7.50** | 7.80 |
| — bonds | **3.75** | 4.00 |

## 27. EMPLOYEE BENEFITS (CONTINUED)

### 27.3 POST-RETIREMENT LIABILITY VALUATION (CONTINUED)

The discount rate used to determine the liabilities of the US plans for IAS 19 accounting purposes is required to be determined by reference to market yields on high quality corporate bonds. The US discount rate in the above table is based on the Citigroup pension discount curve.

The expected asset return is the Company's expectation at the valuation date of long-term asset returns: based on the "risk-free" yield available by following a buy and hold investment strategy in government bonds; with returns for other bonds and equities estimated based on observed historic long-term strategic risk premia. These assumptions do not take account of the relative valuation of markets or of market momentum.

*(c) Sensitivity analysis of the impact of changes in key IAS 19 actuarial assumptions*

The following table analyses, for the Group's US pension plans, the theoretical estimated impact on plan liabilities resulting from changes to key actuarial assumptions used for IAS 19 valuation purposes, whilst holding all other assumptions constant.

| Assumption | Change in assumption | Impact on US plan liabilities |
|---|---|---|
| Discount rate | Increase/decrease by 0.1% | Decrease/increase by 1.3% |
| Mortality | Increase by one year | Increase by 3.6% |

### 27.4 DEFINED BENEFITS OBLIGATION

The liabilities of the Group's defined benefits pension and other post-retirement plans for IAS 19 accounting purposes are measured by discounting the best estimate of the future cash flows to be paid out by the plans using the projected unit method, in which the calculation of plan liabilities makes allowance, where appropriate, for projected increases in benefit-related earnings.

The average duration of the obligations to which the liabilities of the Group's US pension plans relate is 12 years.

| | Defined benefit obligation plans | | |
|---|---|---|---|
| | **US £m** | **ROW £m** | **Total £m** |
| Present value as at 1 January 2012 | **63.3** | **8.1** | **71.4** |
| Exchange differences | **(1.3)** | **(0.2)** | **(1.5)** |
| Current service cost | **—** | **0.2** | **0.2** |
| Interest cost | **2.5** | **0.3** | **2.8** |
| Settlements | **(8.5)** | **—** | **(8.5)** |
| Actuarial losses | **4.5** | **0.6** | **5.1** |
| Benefits paid | **(3.1)** | **(1.0)** | **(4.1)** |
| **Present value as at 31 December 2012** | **57.4** | **8.0** | **65.4** |

| | Defined benefit obligation pension plans | | |
|---|---|---|---|
| | US £m | ROW £m | Total £m |
| Present value as at 1 January 2011 | 56.5 | 22.3 | 78.8 |
| Exchange differences | 0.5 | (1.2) | (0.7) |
| Current service cost | — | 0.6 | 0.6 |
| Interest cost | 2.7 | 0.9 | 3.6 |
| Settlements | — | (14.5) | (14.5) |
| Actuarial losses | 6.2 | 0.7 | 6.9 |
| Contributions from members | — | 0.1 | 0.1 |
| Benefits paid | (2.6) | (0.8) | (3.4) |
| Present value as at 31 December 2011 | 63.3 | 8.1 | 71.4 |

# Notes to the Group Financial Statements
continued

## 27. EMPLOYEE BENEFITS (CONTINUED)

### 27.5 FAIR VALUE OF PLAN ASSETS

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | US £m | ROW £m | Total £m | US £m | ROW £m | Total £m |
| **At 1 January** | **42.8** | **2.2** | **45.0** | 37.8 | 14.1 | 51.9 |
| Exchange differences | **(1.9)** | **(0.2)** | **(2.1)** | 0.4 | — | 0.4 |
| Expected return | **2.3** | **—** | **2.3** | 2.4 | 0.6 | 3.0 |
| Settlements | **(6.8)** | **—** | **(6.8)** | — | (12.5) | (12.5) |
| Actuarial gains | **1.6** | **—** | **1.6** | 1.4 | — | 1.4 |
| Employer contributions | **4.0** | **0.2** | **4.2** | 3.3 | 0.5 | 3.8 |
| Member contributions | **—** | **—** | **—** | — | 0.1 | 0.1 |
| Benefits paid | **(2.9)** | **(0.2)** | **(3.1)** | (2.5) | (0.6) | (3.1) |
| **At 31 December** | **39.1** | **2.0** | **41.1** | 42.8 | 2.2 | 45.0 |

The actual return on all Group pension plan assets was £3.9m (2011: £4.4m).

### 27.6 BALANCE SHEET RECOGNITION

The amount recognised in the Group balance sheet in respect of the Group's defined benefits pension plans and other post-retirement benefits plans is analysed in the following tables.

| | US £m | ROW £m | 2012 Total £m |
|---|---|---|---|
| Equities | **14.7** | **—** | **14.7** |
| Bonds | **23.7** | **—** | **23.7** |
| Other assets | **0.7** | **2.0** | **2.7** |
| Fair value of plan assets | **39.1** | **2.0** | **41.1** |
| Funded defined benefit obligations | **(51.7)** | **(3.8)** | **(55.5)** |
| Status of funded plans | **(12.6)** | **(1.8)** | **(14.4)** |
| Unfunded post-retirement benefits plans | **(5.7)** | **(4.2)** | **(9.9)** |
| **Total net liabilities** | **(18.3)** | **(6.0)** | **(24.3)** |

| | US £m | ROW £m | 2011 Total £m |
|---|---|---|---|
| Equities | 7.9 | — | 7.9 |
| Bonds | 27.8 | 0.2 | 28.0 |
| Other assets | 7.1 | 2.0 | 9.1 |
| Fair value of plan assets | 42.8 | 2.2 | 45.0 |
| Funded defined benefit obligations | (58.9) | (4.4) | (63.3) |
| Status of funded plans | (16.1) | (2.2) | (18.3) |
| Unfunded post-retirement benefits plans | (4.4) | (3.7) | (8.1) |
| Total net liabilities | (20.5) | (5.9) | (26.4) |

*Defined benefit contributions in 2013*

In 2013, the Group is expected to make aggregate contributions into its defined benefits pension and other post-retirement benefits plans of around £2.5m.

## 27. EMPLOYEE BENEFITS (CONTINUED)

### 27.7 INCOME STATEMENT RECOGNITION

The expense recognised in the Group income statement in respect of the Group's defined benefits retirement plans and other post-retirement benefits plans is shown below.

| | 2012 £m | 2011 £m |
|---|---|---|
| Current service cost | **0.2** | 0.6 |
| Interest on obligation | **2.8** | 3.6 |
| Expected return on plan assets | **(2.3)** | (3.0) |
| Gains relating to employee benefits plans | **(1.7)** | (2.0) |
| **Total net credit** | **(1.0)** | (0.8) |

The total net credit of £1.0m (2011: £0.8m) recognised in the Group income statement in respect of the Group's defined benefits pension plans and other post-retirement benefits plans is recognised in the following lines:

| | | 2012 £m | 2011 £m |
|---|---|---|---|
| In arriving at operating profit | — within manufacturing costs | **0.2** | 0.2 |
| | — within administration, selling and distribution costs | **(1.7)** | (1.6) |
| In arriving at profit before tax | — within finance costs | **2.8** | 3.6 |
| | — within finance income | **(2.3)** | (3.0) |
| **Total net credit** | | **(1.0)** | (0.8) |

The exceptional net gain relating to employee benefits plans of £2.0m in 2011 arose from the closure of two defined benefit pension plans in the Netherlands.

Administration costs charged within ordinary finance costs in 2012 were £0.2m. In accordance with IAS 19 (Revised), which takes effect from 1 January 2013, these costs would have been charged within operating profit and the net finance charge relating to the Group's post-retirement benefit plans would have increased by £0.7m, resulting in an overall increase in the net finance charge of £0.5m. The implementation of the revised standard is expected to increase the net finance charge for pensions in 2013 by some £0.5m.

### 27.8 HISTORICAL INFORMATION

The history of the fair value of the Group's plan assets, the present value of defined benefit obligations, the net deficit in the plans and the experience adjustments on plan assets and liabilities are shown below.

| | | Defined benefits plans | | |
|---|---|---|---|---|
| | 2012 £m | 2011 £m | 2010 £m | 2009 £m |
| Fair value of plan assets | **41.1** | 45.0 | 51.9 | 44.3 |
| Present value of defined benefit obligations | **(65.4)** | (71.4) | (78.8) | (71.5) |
| **Net plan deficit** | **(24.3)** | (26.4) | (26.9) | (27.2) |
| Experience gains/(losses) on plan liabilities | **0.3** | 0.6 | (0.3) | 0.7 |
| Experience gains on plan assets | **1.6** | 1.4 | 0.8 | 5.6 |

The cumulative amount of actuarial losses recognised in the Group statement of comprehensive income is £26.4m (2011: £22.9m).

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# Notes to the Group Financial Statements
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## 28. SHARE-BASED PAYMENTS

In accordance with IFRS 2, *Share-based Payment*, the disclosures in this note are only in respect of those options granted after 7 November 2002 that had not vested by 1 January 2005.

The number of options and associated share prices in the tables below have been restated to reflect the demerger of the Alent plc business from the former Cookson Group.

### 28.1 INCOME STATEMENT RECOGNITION

The total expense recognised in the Group income statement is shown below.

| | 2012 £m | 2011 £m |
|---|---|---|
| Long-Term Incentive Plan | **1.0** | 0.9 |
| Other plans | **0.2** | 0.2 |
| **Total expense** | **1.2** | 1.1 |

The Group operates a number of different share-based payment plans, the most significant of which is the Long-Term Incentive Plan ("LTIP"), details of which can be found on pages 58 to 59 of the Directors' Remuneration Report. Details of the Group's other share-based payment plans, none of which are significant in the context of the Group's results or financial position, can be found on page 59 of the Directors' Remuneration Report.

### 28.2 DETAILS OF OUTSTANDING OPTIONS

| | Outstanding awards | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 1 January 2012 no. | Granted no. | Exercised no. | Forfeited/ lapsed no. | As at 31 December 2012 no. | Awards exercisable as at 31 December 2012 no. | Weighted average outstanding contractual life of awards years | Range of exercise prices pence |
| LTIP | **5,439,486** | **891,589** | **(3,676,962)** | **(263,060)** | **2,391,053** | **—** | **1.7** | |
| Weighted average exercise price | **nil** | **nil** | **nil** | **nil** | **nil** | **—** | | **n/a** |
| Other plans | **422,044** | **131,441** | **(172,411)** | **(10,429)** | **370,645** | **—** | **1.4** | |
| Weighted average exercise price | **nil** | **nil** | **nil** | **nil** | **nil** | **—** | | **n/a** |

For options exercised during 2012, the share price at the date of exercise was 337.2p.

| | Outstanding awards | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 1 January 2011 no. | Granted no. | Exercised no. | Forfeited/ lapsed no. | As at 31 December 2011 no. | Awards exercisable as at 31 December 2011 no. | Weighted average outstanding contractual life of awards years | Range of exercise prices pence |
| LTIP | 5,156,092 | 866,361 | (265,748) | (317,219) | 5,439,486 | — | 0.9 | |
| Weighted average exercise price | nil | nil | nil | nil | nil | — | | n/a |
| Other plans | 253,595 | 182,359 | (13,007) | (903) | 422,044 | — | 1.3 | |
| Weighted average exercise price | nil | nil | nil | nil | nil | — | | n/a |

For options exercised during 2011, the share price at the date of exercise was 329.8p

## 28. SHARE-BASED PAYMENTS (CONTINUED)

### 28.3 OPTIONS GRANTED UNDER THE LTIP DURING THE YEAR

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | EPS element | TSR element | EPS element | TSR element |
| Fair value of options granted (per share) | **310p** | **234p** | 309p | 236p |
| Share price on date of grant (per share) | **340p** | **340p** | 337p | 337p |
| Expected volatility | **n/a** | **47.0%** | n/a | 59.2% |
| Risk-free interest rate | **n/a** | **0.6%** | n/a | 1.4% |
| Exercise price (per share) | **nil** | **nil** | nil | nil |
| Expected term (years) | **4** | **4** | 4 | 4 |
| Expected dividend yield | **0%** | **0%** | 0% | 0% |

Share price volatility for options granted in 2012 and 2011 is based upon weekly movements in the former Cookson Group's share price over a period prior to the grant date that is equal in length to the expected term of the award.

## 29. TRADE AND OTHER PAYABLES

### 29.1 ACCOUNTING POLICY

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method.

### 29. 2 ANALYSIS OF TRADE AND OTHER PAYABLES

| | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|
| **Non-current** | | | |
| Accruals and other payables | **2.8** | 0.4 | 1.2 |
| Deferred purchase consideration | **1.6** | 0.2 | 1.0 |
| **Total non-current other payables** | **4.4** | 0.6 | 2.2 |
| **Current** | | | |
| Trade payables | **40.2** | 49.9 | 53.0 |
| Other taxes and social security | **4.9** | 7.0 | 6.8 |
| Accruals and other payables | **41.9** | 46.9 | 49.4 |
| Deferred purchase consideration | **1.1** | 0.8 | 0.7 |
| **Total current trade and other payables** | **88.1** | 104.6 | 109.9 |

There is no significant difference between the fair value of the Group's trade and other payables balances and the amount at which they are reported in the Group balance sheet.

# Notes to the Group Financial Statements
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## 30. LEASES

### 30.1 ACCOUNTING POLICY

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

### 30.2 OPERATING LEASE COMMITMENTS

| | 2012 £m | 2011 £m |
|---|---|---|
| The future aggregate minimum lease payments under non-cancellable operating leases are payable as follows: | | |
| Not later than one year | 5.9 | 7.2 |
| Later than one year and not later than five years | 13.5 | 20.6 |
| Later than five years | 2.7 | 35.5 |
| **Total operating lease commitments** | **22.1** | 63.3 |

The Group's property, plant and equipment assets are either purchased outright or held under lease contracts. Where the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the Group, the asset is capitalised in the Group balance sheet and the corresponding liability to the lessor is recognised as a finance lease obligation. Where all the risks and rewards of ownership are not transferred to the Group, the lease is classified as an operating lease and neither the asset nor the corresponding liability to the lessor is recognised in the Group balance sheet. The net book value of the Group's property, plant and equipment assets held under finance lease contracts at 31 December 2012 and 31 December 2011 was not material.

The majority of the decrease in the level of lease commitments in 2012 arose as a result of the purchase of Alent's property in Woking, UK which was previously occupied on a leasehold basis.

The cost incurred by the Group in the year in respect of assets held under operating leases, all of which was charged within operating profit, amounted to £7.2m (2011: £7.7m).

## 31. PROVISIONS

### 31.1 ACCOUNTING POLICY

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect of the time value of money is material, provisions are discounted using a pre-tax discount rate that reflects both the current market assessment of the time value of money and the specific risks associated with the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 31.2 ANALYSIS OF PROVISIONS

| | Disposal and closure costs £m | Restructuring and other charges £m | Total £m |
|---|---|---|---|
| As at 1 January 2012 | 11.3 | 20.0 | 31.3 |
| Exchange adjustments | 0.3 | 0.4 | 0.7 |
| Charge to Group income statement | 5.7 | 3.8 | 9.5 |
| Unwind of discount | — | 0.4 | 0.4 |
| Cash spend | (1.9) | (19.9) | (21.8) |
| **As at 31 December 2012** | **15.4** | **4.7** | **20.1** |

## 31. PROVISIONS (CONTINUED)

### 31.2 ANALYSIS OF PROVISIONS (CONTINUED)

Of the total provision balance as at 31 December 2012 of £20.1m (2011: £31.3m), £12.3m (2011: £25.7m) is recognised in the Group balance sheet within non-current liabilities and £7.8m (2011: £5.6m) within current liabilities.

The provision for disposal and closure costs includes the Directors' best estimate of the costs to be incurred in the fulfilment of obligations incurred in connection with former Group businesses, resulting from either disposal or closure and the demolition and clean-up of closed sites. The provision comprises amounts payable in respect of legal or other regulatory requirements, or from third-party claims, including claims relating to product liability. As the settlement of many of the obligations for which provision is made is subject to legal or other regulatory process, the timing of the associated cash outflows is subject to some uncertainty, but the majority of the amounts provided are expected to be utilised over the next five years and the underlying estimates of costs are regularly updated to reflect changed circumstances with regard to individual matters.

Provisions for restructuring and other charges include the costs of all of the Group's initiatives to rationalise its operating activities. Cash costs of £19.9m were incurred in the year ended 31 December 2012, of which £16.0m related to the purchase of Alent's property in Woking, UK which was previously occupied on a leasehold basis and over which an onerous lease reserve had been established in 2009. The purchase of the property resulted in the extinguishing of that provision. The balance of £4.7m as at 31 December 2012 includes £1.7m in relation to onerous lease provisions in respect of leases terminating between two and sixteen years, and £3.0m in relation to future expenditure on restructuring initiatives which is expected to be paid out over the next two years.

## 32. ACQUISITION OF SUBSIDIARIES NET OF CASH ACQUIRED

During the year, the Group acquired interests in subsidiaries for a total consideration of £3.2m, of which £0.4m was paid in cash and £2.8m being contingent upon future performance, £0.8m of which was paid in the current period. The fair value of net assets acquired was £0.4m (of which £nil was cash). Goodwill arising on these acquisitions amounted to £2.8m (note 17). The £1.4m disclosed in the Group statement of cash flows in respect of the acquisition of subsidiaries net of cash acquired, comprised £0.4m paid for current year acquisitions, £0.2m of deferred consideration paid in respect of prior year acquisitions and £0.8m of deferred consideration paid in respect of current year acquisitions.

## 33. OFF-BALANCE SHEET ARRANGEMENTS

In compliance with current reporting requirements, certain arrangements entered into by the Group in its normal course of business are not reported in the Group balance sheet. Of such arrangements, those considered material by the Directors include: inventory held either under precious metal consignment arrangements (note 20); future lease payments in relation to assets used by the Group under non-cancellable operating leases (note 30); and trade receivable balances that have been subject to non-recourse factoring arrangements.

Under its non-recourse factoring arrangements, the Group sells trade receivables balances to a third-party factoring company in exchange for a cash payment from the factoring company, net of fees. All the risks and rewards of the trade receivables subject to these arrangements are transferred to the factoring company and, accordingly, the trade receivables are derecognised in the Group balance sheet. Such arrangements are used from time to time by the Group to manage the recovery of cash from its trade receivables. As at 31 December 2012, the Group balance sheet included £2.9m (2011: £13.2m) of cash that would otherwise have been reported as trade receivables if these arrangements were not in place. Factoring fees incurred during the year ended 31 December 2012, which are written off to the Group income statement within ordinary finance costs, amounted to £0.1m (2011: £0.4m).

# Notes to the Group Financial Statements
continued

## 34. CONTINGENT LIABILITIES

The Group has extensive international operations and is subject to various legal and regulatory regimes, including those covering taxation and environmental matters. Legal claims have been brought against certain Group companies by third parties alleging that persons have been harmed by exposure to hazardous materials used by those companies in the manufacture of industrial and consumer products, and further claims may be brought in the future. Several of the Group's subsidiaries are subject to legal proceedings, certain of which are insured claims arising in the ordinary course of the operations of the company involved, and the Directors are aware of a number of issues which are, or may be, the subject of dispute with tax authorities. Reserves are made for the expected amounts payable in respect of known or probable costs resulting both from legal or other regulatory requirements, or from third-party claims. As the settlement of many of the obligations for which reserve is made is subject to legal or other regulatory process, the timing and amount of the associated outflows is subject to some uncertainty.

Certain subsidiary companies of Vesuvius plc and Alent plc are defendants in two actions, brought by MacDermid (incorporated in the United States), which are pending in the Connecticut Superior Court and arising out of corporate activity involving the parties in the autumn of 2006. The first action was commenced in 2009 and the second action was commenced in August 2012. MacDermid claims damages of approximately $62m, plus punitive or exemplary damages, costs and interest which are currently unquantifiable. Both Vesuvius and Alent believe these claims have no merit and are vigorously defending these actions. Each of Vesuvius and Alent anticipate filing motions for summary judgement in both cases by mid-2013 and, if any claims remain pending decisions on those motions, a trial in the first action is anticipated in the second half of 2013 or early 2014. Any liability relating to the MacDermid claim arising following the demerger of Cookson Group will be split equally between Alent plc and Vesuvius plc.

## 35. PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Details of the principal subsidiaries and joint ventures of Alent plc and the countries in which they are incorporated are given in note 5 to the Company financial statements.

## 36. RELATED PARTIES

All transactions with related parties are conducted on an arm's length basis and in accordance with normal business terms. Transactions between related parties that are Group subsidiaries are eliminated on consolidation. Vesuvius plc was a related party for the period prior to demerger on 19 December 2012 and the table below reports the transactions and balances that Alent had with Vesuvius in respect of that period.

| | **2012 £m** | 2011 £m |
|---|---|---|
| Net interest (expense)/income | **(2.3)** | 0.3 |
| Net management fees expense | **(5.5)** | (6.1) |
| Net dividend expense | **(355.9)** | (109.4) |
| Net loans payable | — | (8.7) |

# Company Balance Sheet

As at 31 December 2012

| | Notes | 2012 £m |
|---|---|---|
| **Fixed assets** | | |
| Investment in subsidiaries | 5 | **862.4** |
| **Total fixed assets** | | **862.4** |
| **Current assets** | | |
| Debtors - amounts falling due within one year | | **1.1** |
| **Creditors: amounts falling due within one year** | | |
| Other creditors | 6 | **(11.5)** |
| **Net current liabilities** | | **(10.4)** |
| **Total assets less current liabilities** | | **852.0** |
| **Creditors: amounts falling due after more than one year** | | |
| Other creditors | 6 | **(0.1)** |
| **Net assets** | | **851.9** |
| **Equity capital and reserves** | | |
| Issued share capital | 7 | **27.8** |
| Other capital reserve | 8 | **444.7** |
| Retained earnings | 8 | **379.4** |
| **Shareholders' funds — equity** | | **851.9** |

The Company financial statements were approved and authorised for issue by the Board on 28 March 2013 and signed on its behalf by:

**Steve Corbett,** Chief Executive

**David Egan,** Group Finance Director

# Notes to the Company Financial Statements

## 1. BASIS OF PREPARATION

### 1.1 BASIS OF ACCOUNTING

Alent plc ("the Company") was incorporated on 31 August 2012 and is registered in England and Wales.

At a General Meeting on 26 November 2012, the shareholders of Cookson Group plc approved the demerger of the Performance Materials division. On 19 December 2012 (the demerger date), the businesses making up this division were transferred to an unrelated company, Alent plc, in exchange for the entire share capital of that company. As a result of the demerger, Alent plc became the ultimate parent company of the Alent subsidiaries. Trading of shares in Alent plc on the London Stock Exchange commenced on 19 December 2012.

The financial statements of Alent plc ("the Company"), are prepared in accordance with the Companies Act 2006 and under the historical cost convention and in accordance with UK GAAP. The Company has not presented a separate profit and loss account, as permitted by Section 408(3) of the Companies Act 2006.

### 1.2 GOING CONCERN

The Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they have adopted the going concern basis in preparing the financial statements of the Group and the Company for the year ended 31 December 2012.

## 2. EMPLOYEE BENEFITS EXPENSE

Details of the Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 56 to 69. The Directors remuneration during the period was borne by other Group companies.

## 3. AUDIT AND NON-AUDIT FEES

Amounts payable to KPMG LLP in relation to audit and non-audit fees are disclosed within note 7 to the consolidated financial statements.

## 4. DIVIDENDS

A proposed final dividend for the year ended 31 December 2012 of £15.3m, equivalent to 5.5p per ordinary share, is subject to approval by shareholders at the Company's Annual General Meeting and has not been included as a liability in these financial statements. If approved by shareholders, the dividend will be paid on 13 June 2013 to ordinary shareholders on the register at 10 May 2013.

## 5. INVESTMENT IN SUBSIDIARIES

### 5.1 ACCOUNTING POLICY

Shares in subsidiaries are stated at cost less any impairment in value.

### 5.2 ANALYSIS OF INVESTMENT IN SUBSIDIARIES

| | Shares in subsidiaries at cost £m |
|---|---|
| At incorporation on 31 August 2012 | — |
| Additions | **862.4** |
| **As at 31 December 2012** | **862.4** |

The principal trading subsidiaries and joint ventures of Alent plc and the countries in which they are incorporated are as follows:

Alent Investments Ltd, England and Wales*
Alpha-Fry Ltd, England and Wales
Alpha-Fry Technologies BV, The Netherlands
Alpha Metals Lotsysteme GmbH, Germany
Alpha Metals (Taiwan) Inc., Taiwan
Cookson Alpha Metals (Shenzhen) Co Ltd, China
Cookson Electronics Brasil Ltda, Brazil
Cookson Electronics, Inc., USA
Cookson Electronics Ltd, Hong Kong
Cookson Enthone Chemistry Trading (Shanghai) Co Ltd, China
Cookson India Private Limited, India
Cookson Investments, Inc., USA
Cookson Singapore Pte Ltd, Singapore
Electroplating Engineers of Japan Ltd, Japan (50%)
Enthone GmbH, Germany
Enthone Inc., USA
Fry's Metals, Inc., USA

With the exception of the company marked with an asterisk (*), the ordinary capital of the above companies was owned by an Alent plc subsidiary at 31 December 2012. All of the above companies are wholly owned, unless otherwise stated. A full list of Group companies will be included in the Company's Annual Return to the Registrar of Companies.

All of the above companies have the same year-end as Alent plc with the exception of Electroplating Engineers of Japan Ltd which has a year-end of 31 March. All of the subsidiaries of Alent plc are included in the consolidated financial statements of the Company.

## 6. OTHER CREDITORS

| | 2012 £m |
|---|---|
| Amounts owed to subsidiary undertakings | **6.5** |
| Accruals and other creditors | **5.0** |
| Redeemable preference shares | **0.1** |
| **Total other creditors** | **11.6** |
| Less: amounts falling due in more than one year — redeemable preference shares | **(0.1)** |
| **Total amounts falling due within one year** | **11.5** |

# Notes to the Company Financial Statements

continued

## 7. ISSUED SHARE CAPITAL

### 7.1 ACCOUNTING POLICY

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### 7.2 ANALYSIS OF ISSUED SHARE CAPITAL

On incorporation, the Company's share capital consisted of one ordinary share with a par value of £1 ( "the subscriber share").

On 18 September 2012, the Company issued 50,000 redeemable non-voting preference shares of £1 each. The preference shares were allotted for cash and remain unpaid by virtue of the holder giving an undertaking to pay up each share pursuant to section 583(2) and 583(3) of the Companies Act 2006.

On 19 December 2012, the Company issued 278,448,752 ordinary shares of £1.50 each to the public shareholders of Vesuvius plc in return for the receipt of the entire share capital of Alent Investments Limited. The Company has applied merger relief under section 612 of the Companies Act 2006 and, accordingly, the excess of the total market value of Alent Investments Limited, being £862.4m, over the nominal value of the shares issued of £417.7m, has been recorded in an other capital reserve. On the same date, the subscriber share was converted into and redesignated as a deferred share of £1.

Subsequently, on 19 December 2012, the capital of Alent plc was reduced by:

a) cancelling and extinguishing paid-up capital on each of the Alent plc shares in issue immediately prior to the confirmation by the Court of the Alent plc capital reduction to the extent that the amount paid up on each such Alent plc share shall be 10 pence; and
b) reducing the nominal value of each of the Alent plc shares to 10 pence each:

The rights attached to the redeemable non-voting preference shares are as follows:

a) the shares carry no rights to receive notice of or attend and vote at any General Meeting of the Company unless a resolution is proposed to wind up the Company or vary, modify, alter or abrogate any of the rights attaching to the redeemable non-voting preference shares;
b) the shares carry no rights to participate in profits or assets of the Company except, if there is a return of capital on winding-up or otherwise, the assets of the Company available for distribution among the members shall be applied first in repaying in full to the holder of the redeemable non-voting preference shares the amount paid up on such shares: and
c) subject to the provisions on the Companies Act, the Company may redeem the redeemable non-voting preference shares at their nominal amount at any time specified by either the Directors or the holders of the redeemable non-voting preference shares. On the redemption of any redeemable non-voting preference, such shares shall be cancelled.

The rights attached to the deferred share are as follows:

a) the deferred share shall carry no rights to receive any of the profits of the Company available for distribution by way of dividend or otherwise;
b) except as provided below, the deferred share shall carry no rights to participate in profits or assets of the Company;
c) if there is a return of capital on winding-up or otherwise, the assets of the Company available for distribution among the members shall be applied first in repaying in full to the holder of the deferred share the amount paid up on such share; and
d) the holder of the deferred share shall not be entitled to receive notice of or attend and vote at any General Meeting of the Company unless a resolution is to be proposed which varies, modifies, alters or abrogates any of the rights attaching to the deferred share.

## 8. RESERVES

### 8.1 ACCOUNTING POLICY

*(a) Taxation*

Both current and deferred tax are calculated using tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Current tax payable is based on the taxable result for the year. Deferred taxation is recognised, without discounting, in respect of all timing differences that have originated, but not reversed, at the balance sheet date, with the exception that deferred taxation assets are only recognised if it is considered more likely than not that there will be suitable future profits from which the reversal of the underlying timing differences can be deducted. Provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

### 8.2 ANALYSIS OF RESERVES

| | Other capital reserve £m | Retained earnings £m | Total reserves £m |
|---|---|---|---|
| At incorporation on 31 August 2012 | — | — | — |
| Ordinary shares allotted in the period | 444.7 | — | 444.7 |
| Court approved capital reduction | — | 389.9 | 389.9 |
| Loss recognised in the period | — | (10.5) | (10.5) |
| **As at 31 December 2012** | 444.7 | 379.4 | 824.1 |

The other capital reserve of £444.7m was created on 19 December 2012 as described in note 7.2 above and does not form part of the reserves available for distribution by the Company.

As at 31 December 2012, options exercisable over the £0.10 ordinary shares and capable of being satisfied through new allotments of shares were as follows:

| | Years of award/grant | Option prices (£) | Latest year of exercise/ vesting | Number of options/ allocations outstanding |
|---|---|---|---|---|
| Long-Term Incentive Plan | 2010–2012 | nil | 2012–2017 | 2,391,053 |
| Deferred Share Bonus Plan | 2010–2012 | nil | 2012–2015 | 370,645 |

## 9. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Share capital £m | Other capital reserve £m | Retained earnings £m | Total shareholders' equity £m |
|---|---|---|---|---|
| At incorporation on 31 August 2012 | — | — | — | — |
| Ordinary shares of £1.50 allotted during the period | 417.7 | 444.7 | — | 862.4 |
| Court approved capital reduction | (389.9) | — | 389.9 | — |
| Loss recognised in the period | — | — | (10.5) | (10.5) |
| **As at 31 December 2012** | 27.8 | 444.7 | 379.4 | 851.9 |

# Notes to the Company Financial Statements

continued

## 10. SHARE-BASED PAYMENTS

### 10.1 ACCOUNTING POLICY

The Company principally operates equity-settled share-based payment arrangements for its employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date takes account of the effect of market-based conditions, such as the Total Shareholder Return target upon which vesting for some of the awards is conditional, and is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. The cumulative expense recognised is adjusted for the best estimate of the shares that will eventually vest and for the effect of other non market-based vesting conditions, such as growth in headline earnings per share, which are not included in the fair value determined at the date of grant. For grants with market-based conditions attaching to them, fair value is measured using a form of stochastic option pricing model. For all other grants, fair value is measured using the Black–Scholes model.

### 10.2 PROFIT AND LOSS ACCOUNT RECOGNITION

The Company operates a number of different share-based payment schemes, the main features of which are detailed on pages 58 to 59 of the Directors' Remuneration Report.

### 10.3 DETAILS OF OUTSTANDING OPTIONS

| | Outstanding awards | | | | | |
|---|---|---|---|---|---|---|
| | As at 31 August 2012 no. | Transfers no. | As at 31 December 2012 no. | Awards exercisable as at 31 December 2012 no. | Weighted average outstanding contractual life of awards years | Range of exercise prices pence |
| LTIP | — | **497,460** | **497,460** | — | **1.8** | |
| Weighted average exercise price | — | **nil** | **nil** | — | | **n/a** |

Details of options granted during the year prior to the date of transfer can be found in note 28 to the consolidated financial statements.

## 11. CONTINGENT LIABILITIES

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. Guarantees provided by the Company as at 31 December 2012 in respect of the liabilities of its subsidiary companies amounted to £228.7m which includes £227.5m of drawings under the syndicated debt facility.

Alent has extensive international operations and is subject to various legal and regulatory regimes, including those covering taxation and environmental matters. Several of the Company's subsidiaries are parties to legal proceedings, certain of which are insured claims arising in the ordinary course of the operations of the company involved, and are aware of a number of issues which are, or may be, the subject of dispute with tax authorities. While the outcome of litigation and other disputes can never be predicted with certainty, having regard to legal advice received and the insurance arrangements of the Company and its subsidiaries, the Directors believe that none of these matters will, either individually or in the aggregate, have a materially adverse effect on the Company's financial condition or results of operations.

## 12. RELATED PARTIES

All transactions with related parties are conducted on an arm's length basis and in accordance with normal business terms. Transactions between related parties that are wholly owned Group subsidiaries are not disclosed in this note.

# Summary Group Results

| INCOME STATEMENT | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|
| **Revenue** | **713.9** | 814.4 | 720.9 |
| Net sales value | **416.7** | 433.3 | 413.4 |
| **Operating profit before share of joint ventures and exceptional items** | **103.0** | 99.6 | 71.0 |
| Share of post-tax profit of joint-ventures | **0.3** | 1.2 | 1.3 |
| Exceptional items | **(15.8)** | (3.5) | (5.3) |
| **Operating profit** | **87.5** | 97.3 | 67.0 |
| Demerger costs | **(10.7)** | — | — |
| Net finance costs | **(3.6)** | (2.9) | (3.6) |
| **Profit before tax** | **73.2** | 94.4 | 63.4 |
| Income tax costs — ordinary activities | **(23.3)** | (16.8) | (8.0) |
| — exceptional items | **(4.9)** | (3.2) | 0.6 |
| **Profit for the year** | **45.0** | 74.4 | 56.0 |

| BALANCE SHEET | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|
| Property, plant and equipment | **83.9** | 75.8 | 69.7 |
| Intangible assets | **295.0** | 298.8 | 301.0 |
| Other non-current assets | **28.3** | 33.4 | 23.7 |
| Total non-current assets | **407.2** | 408.0 | 394.4 |
| Trade working capital | **130.7** | 120.4 | 133.1 |
| Net employee benefits liabilities | **(24.3)** | (26.4) | (26.9) |
| Other net liabilities | **(93.2)** | (98.8) | (104.1) |
| **Total capital employed** | **420.4** | 403.2 | 396.5 |
| Total equity | **276.0** | 454.7 | 499.3 |
| Net debt/(cash) | **144.4** | (51.5) | (102.8) |
| **Total funding** | **420.4** | 403.2 | 396.5 |

| STATEMENT OF CASH FLOWS | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|
| **Profit for the year** | **45.0** | 74.4 | 56.0 |
| Adjustments for: | | | |
| Depreciation | **8.9** | 8.5 | 8.7 |
| Share of post-tax profit of joint ventures | **(0.3)** | (1.2) | (1.3) |
| Exceptional items | **15.8** | 3.5 | 5.3 |
| Demerger costs | **10.7** | — | — |
| Net finance costs | **3.6** | 2.9 | 3.6 |
| Income tax costs | **28.2** | 20.0 | 7.4 |
| EBITDA | **111.9** | 108.1 | 79.7 |
| Net increase in trade and other working capital | **(20.0)** | (9.6) | (19.5) |
| Outflow relating to restructuring charges | **(19.8)** | (3.8) | (9.0) |
| Payment of demerger costs | **(5.7)** | — | — |
| Additional funding contributions into Group pension plans | **(2.1)** | (1.7) | (3.1) |
| Net operating outflow related to assets and liabilities classified as held for sale | **—** | — | (1.6) |
| **Cash generated from operations** | **64.3** | 93.0 | 46.5 |

# Summary Divisional Results

| | | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| **Assembly Materials** | | | | |
| Revenue | £m | **438.7** | 527.3 | 446.7 |
| Net sales value | £m | **208.0** | 214.1 | 196.9 |
| Segment result | £m | **57.5** | 52.1 | 36.4 |
| Return on sales | % | **13.1** | 9.9 | 8.1 |
| Return on net sales value | % | **27.6** | 24.3 | 18.5 |
| Number of employees — average | No. | **1,347** | 1,352 | 1,463 |
| — year-end | No. | **1,332** | 1,355 | 1,339 |
| **Surface Chemistries** | | | | |
| Revenue | £m | **275.2** | 287.1 | 274.2 |
| Net sales value | £m | **208.7** | 219.2 | 216.5 |
| Segment result | £m | **45.2** | 47.5 | 34.6 |
| Return on sales | % | **16.4** | 16.5 | 12.6 |
| Return on net sales value | % | **21.7** | 21.7 | 16.0 |
| Number of employees — average | No. | **1,212** | 1,209 | 1,216 |
| — year-end | No. | **1,193** | 1,194 | 1,212 |

# Glossary of Technical Terms

| | |
|---|---|
| **BGA** | A BGA (Ball Grid Array) is a type of surface mount technology used for packaging integrated circuits. |
| **Damascene copper** | Chemicals used to create nanoscale copper connections within semiconductor wafers. |
| **Die attach products** | The "die" refers to the silicon die in active integrated circuit packages. The attachment is most commonly a thermal path to help draw the heat out of the package and is typically either a purely metal or a conductive polymeric bond. This application is critical to the integrated circuit's reliability and ultimate performance. |
| **Electroplating** | A plating process that uses electrical current to coat a conductive object with a thin layer of another material in order to bestow a desired property (e.g. abrasion-resistance and wear-resistance, aesthetic qualities, etc.) to a surface that otherwise lacks that property. |
| **Flux** | A chemical-based material designed to help reduce oxides and clean metal surfaces in order to enable effective 'wetting' of metal surfaces to the molten solder alloy during the creation of a solder joint when attaching an electronic component to a printed circuit board. |
| **Immersion silver** | A printed circuit board final finish that provides tarnish resistance, low contact resistance and ease of cleaning. Specially designed to meet printed circuit board lead-free assembly and OEM requirements. |
| **Integrated circuit or IC** | An electronic circuit manufactured by lithograph, or the patterned diffusion of trace elements into the surface of a thin substrate of semiconductor material. Additional materials are deposited and patterned to form interconnections between semiconductor devices. |
| **LED** | A light-emitting diode. |
| **Printed circuit board** | A printed circuit board, a type of circuit board which has conducting tracks superimposed or "printed" on one or both sides. May refer to a board either before or after the assembly process. Also referred to as a printed wiring board ("PWB") in the USA. |
| **Printed circuit board assembly** | Printed circuit board assembly involves attaching components such as semiconductors and capacitors on to a fabricated board and making the required physical and electrical connections. This has to be done with precise accuracy if the finished printed circuit board is to function effectively. |
| **Semiconductor copper** | See damascene copper. |
| **Semiconductor wafers** | A semiconductor wafer is a thin slice of semiconducting material, upon which microcircuits are constructed by chemical deposition of various materials. |
| **Solder** | An alloy of tin and other metals with a comparatively low melting point used to join less fusible metals. |
| **Surface mount technology** | Both a technology design and the electronic components that are used in the process of soldering components to the surface of a printed circuit board. |
| **Through-hole assembly** | The use of either older technology parts or parts requiring significant mechanical strength, where the component has wire leads that physically pass through holes in a printed circuit board. |
| **Wafer bumping products** | Metal alloys for wafer bump plating, including gold, copper, lead-free alloys and low alpha lead-based alloy. |

# Shareholder Information

## ENQUIRIES

For enquiries regarding Ordinary Shares, please contact:

Equiniti Limited
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United Kingdom

Or please telephone:
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or (non UK) + 44 121 415 7047
or Fax: + 44 1903 702 424

For the hard of hearing, Equiniti now offer a special Textel service which can be accessed by dialling 0871 384 2255. Shareholders can also access their holdings online by visiting the Registrar's website at www.shareview.co.uk

For enquiries regarding corporate governance, please contact the Company Secretary at the registered office:
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Fax: +44 (0) 1483 793226

For investor queries, please contact the investor relations manager at the registered office:
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## FINANCIAL CALENDAR*

| | |
|---|---|
| May 2013 | Q1 Interim Management Statement |
| 21 May 2013 | Annual General Meeting |
| August 2013 | Announcement of 2013 Interim results |
| November 2013 | Q3 Interim Management Statement |

* The financial calendar may be updated from time to time throughout the year. Please refer to our website www.alent.plc for up-to-date information.

## DIVIDEND REINVESTMENT PLAN

Shareholders are able to take their dividend as cash, or in shares through the DRIP (Dividend Reinvestment Plan) operated by the Company's Registrars, Equiniti. Further details are available at http://www.shareview.co.uk/products/Pages/DividendReInvestmentPlan.aspx or directly from Equiniti.

The Dividend Reinvestment Plan (DRIP) allows shareholders to use their cash dividends to buy more shares in their company. Rather than receiving a dividend cheque through the post or having their bank account credited with the dividend payment, shareholders can choose to use their cash dividend to buy additional shares.

Whole shares are purchased with any residual money being carried forward and added to the next dividend. However, if the amount of the dividend, less any dealing costs incurred in completing the purchase, is insufficient to buy a single share no charge is made and the dividend is carried forward.

## E-COMMUNICATIONS

Using the Group's website as the main method of distribution for many statutory documents is part of our commitment to reducing our environmental impact. You can choose to receive shareholder communications, including the Annual Report and Notice of Meetings, in electronic form rather than by post.

This has a number of advantages, including:

- savings on environmental resources;
- significant cost savings for the Company on the delivery of documents;
- speedier delivery of shareholder communications.

Shareholders can register through the online service provided by our Registrars, Equiniti, at www.shareview.co.uk. The registration process requires the input of a shareholder reference number (SRN), which can be found on the share certificate.

To ensure that shareholder communications are received in electronic form, "email" should be selected as the mailing preference.

Once registered, shareholders will be sent an email notifying them each time a shareholder communication has been published on our website, and providing them with a link to the page on our website where it may be found.

## WARNING TO SHAREHOLDERS

Alent plc is legally obliged to make its share register available to the general public. Consequently some shareholders may receive unsolicited mail, including correspondence from unauthorised investment companies.

Companies have become increasingly aware that their shareholders have received unsolicited phone calls concerning their shareholding. These calls are typically from overseas based brokers who target UK shareholders offering to sell what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

If you receive any unsolicited investment advice:

- ensure that you obtain the correct name of the person and organisation;
- check that they are properly authorised by the FSA before becoming involved. You can check at www.fsa.gov.uk; and
- report the matter to the FSA by calling 0845 606 1234 or visiting www.fsa.gov.uk

## ANALYSIS OF ORDINARY SHAREHOLDERS

### As at 31 December 2012

| | Shareholder Analysis | | Shareholding Analysis | |
|---|---|---|---|---|
| Range | No. of holders | % of holders | No. of shares | % of issued share capital |
| 1–50,000 | 3,745 | 79.75 | 627,678 | 0.22 |
| 1,001–50,000 | 737 | 15.69 | 4,874,613 | 1.75 |
| 50,001–500,000 | 147 | 3.13 | 23,768,113 | 8.54 |
| 500,001+ | 67 | 1.43 | 249,178,348 | 89.49 |
| **Total** | 4,696 | 100 | 278,448,752 | 100 |

# Advisers

## FINANCIAL ADVISERS

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## CORPORATE BROKERS

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## REGISTRARS

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