

TANFIELD GROUP PLC REPORT AND FINANCIAL STATEMENTS 2012

Registered in England & Wales

Company number 04061965

REPORT AND FINANCIAL STATEMENTS 2012

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TANFIELD GROUP PLC FINANCIAL STATEMENTS

DIRECTORS AND ADVISERS

DIRECTORS

EXECUTIVE

DS Kell
CD Brooks
BJ Campbell

Chief Executive
Finance Director
Managing Director Powered Access

NON-EXECUTIVE

J Pither
RRE Stanley
M Groak

Chairman
Non executive Director
Non executive Director

SECRETARY

CD Brooks

REGISTERED OFFICE AND ADVISORS

REGISTERED OFFICE

Vigo Centre
Birtley Road
Washington
Tyne and Wear
NE38 9DA

NOMINATED ADVISOR

WH Ireland
24 Martin Lane
London
EC4R 0DR

AUDITOR

Baker Tilly UK Audit LLP
1 St James' Gate
Newcastle upon Tyne
NE1 4AD

NOMINATED BROKER

WH Ireland
24 Martin Lane
London
EC4R 0DR

SOLICITOR

Ward Hadaway
Sandgate House
102 Quayside
Newcastle upon Tyne
NE1 3DX

REGISTRAR

Capita IRG plc
Bourne House
34 Beckenham
Beckenham
Kent
BR3 4TH

FINANCIAL AND BUSINESS REVIEW

Financial highlights

Key performance indicators	2012	2011	change
Continuing operations	£000's	£000's	%
Revenue	45,072	48,305	(6.7)
Gross margin on materials ¹	41%	37%	4.0
EBITDA (before impairments, associates & disposals)	(13,535)	(13,397)	(1.0)
Cash	2,198	3,463	(36.5)
Headcount (Average no.)	506	469	7.9

¹ Source: management accounts

CHAIRMAN'S STATEMENT

As we predicted, global demand for aerial work platforms continued to grow significantly throughout 2012. We were able to capitalise on this returning market after successfully raising £11m, net of costs, in March, via a share placing. In the ensuing six months we achieved monthly incremental gains in output and sales, leading to our first break-even month since 2008.

However, the extended cash-to-cash cycle of key markets in the Asia-Pacific region, combined with supply chain constraints put additional strain on our working capital, so we reined in production during the final quarter in order to rebalance inventory and maintain cash.

Global demand for our Snorkel range of aerial lifts remains strong, pricing has improved and margins increased. Customers remain engaged in fleet replacement programmes after ageing their fleets during the economic downturn. We continue to increase our distribution channels in key markets, including both Latin America and North America. Scandinavia and Japan remained particularly buoyant markets.

I would like to thank all of our employees for their efforts this year, particularly in achieving our first break-even month in October. I look forward to working with you all in 2013.

CHIEF EXECUTIVE'S REVIEW

Summary

The fleet replacement initiatives we first saw in 2011 continued into 2012, as equipment rental and plant hire companies revitalised ageing fleets of aerial work platforms. We significantly strengthened our supply chain during 2012 and achieved our first month of profitability since 2008.

However cash constraints in the final quarter meant that we lost some momentum and losses for the year reached £14.5m.

Powered Access & Engineering: Turnover of £45.1m (2011: £48.3m)

Demand grew for powered access products in 2012, outstripping our capability to supply. We continued to plan for the future with

the development of two exciting new products that we introduced in April 2013. Tanfield sells the Snorkel brand of aerial work platforms through a global network of independent distributors. In 2012 we appointed new distributors in Germany, France, Brazil, Colombia; as well as more re-sellers in North America.

Zero Emission Vehicles

Smith Electric Vehicles US Corp ("SEVUS"), in which Tanfield retains a 24 per cent holding, successfully raised \$40m in February 2012 to continue its development. However, the company withdrew its planned Initial Public Offering on Nasdaq in September 2012. SEVUS continues to progress, winning new customers in North America, Europe and Asia. We remain supportive of the SEVUS management strategy, which we believe will ultimately deliver a significant return on our investment.

Outlook

We expect global demand for aerial work platforms will continue to grow during 2013 and beyond, although there remains some level of economic uncertainty in the key markets of North America and the Eurozone.

In order to fully exploit the significant opportunities available in 2013 – and to return to profitability - Tanfield requires additional working capital, beyond the £2.1m placing in April 2013.

Tanfield is not proposing to pay a dividend for the period.

As outlined in our announcements of 20 February 2013 and 15 April 2013, The Board has received a substantial number of approaches from credible parties interested in purchasing our Powered Access division and the Snorkel brand.

Due to the strength of this interest, in April the Board of Directors appointed an M&A advisory firm to further explore and manage this process to optimise value for shareholders. Further announcements will be made in due course.

FINANCIAL AND BUSINESS REVIEW (Continued)

FINANCE DIRECTOR'S REPORT

The Revenue for the year of £45.1m (2011 £48.3m) reflected the difficulty in responding to the improved market conditions owing to the constraints imposed by supply chain capacity and working capital constraints in 2012.

As in 2011, the cost base has been held as low as possible without damaging the overall group infrastructure, and, in spite of the lower turnover in the year, the business reported a similar Loss before Tax investment and associate of £15.3m (2011 £15.1m). Expenses in all categories were very similar to 2011 and improved performance is dependent upon increased volumes.

Reassessment of the company's holding in Smith Electric Corp.

During the year, Tanfield's holding in Smith Electric Corp was diluted by successive fundraisings. In addition, Tanfield's influence at board level has reduced, following the appointment of further non-executive directors. As a result, Tanfield's holding can no longer be considered that of an associate. It is therefore now treated as an investment. As such, it is now being held at the lower of cost and realisable value. Whilst the realisable value of a private company is difficult to estimate, all valuation discussions in relation to recent fundraisings by Smith Electric use valuation ranges well in excess of £1.3m which is the recorded cost of the investment. The investment is valued at cost, £1.3m.

Loss from continuing operations after impairments

The Loss from Operations in the period was £15.3m (2011 £15.2m). This was a trading loss reflecting low sales volumes given the constraints to revenue.

Finance income

The interest cost in the period of £127k (2011: £286k) was lower owing to higher cash balances in the period and interest income £146k (on deferred consideration of £220k (2011: £470k)) was lower as 2011 benefited from interest on deferred consideration relating to the Smith sale.

Taxation

In spite of the consolidated losses, a tax charge of £79k arose in a specific fiscal jurisdiction (Japan) in the period (2011 £186k). There is no brought forward deferred tax asset, and none was recognised in the period resulting in no adjustment to deferred tax, consistent with 2011.

Loss from continuing operations

Given the above, Loss from continued operations was £14.5m, (2011 £16.5), the most significant differences between 2012 and 2011 being the reassessment of the holding in Smith Electric Vehicles.

Total comprehensive income for the year

The total comprehensive income for the year was a loss of £15.5m, (2011 £15.7m), after a £1.0m charge (2011 £0.7m income) relating to currency translation differences.

Earnings per share

Loss per share from continuing operations was 12.0 pence (2011: Loss 17.5 pence). No dividend has been declared. (2011: nil)

Cash

At 31 December 2012, the Group had cash of £2.2m (2011: £3.5m). Although the business reported a loss of 14.5m in the period, the cash used was £1.3m. The difference was funded by issuing ordinary shares, (£13.4m net, of which £2m was loaned to Smith) and £1.9m from working capital.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors submit their report and the financial statements of Tanfield Group PLC for the year ended 31 December 2012.

Tanfield Group PLC is a public listed parent company incorporated and domiciled in England and quoted on AIM.

PRINCIPAL ACTIVITIES

The company's principal activity is that of a holding company. Tanfield Group PLC is the parent company of a group engaged mainly in the powered access industry and engineering.

RESULTS AND DIVIDENDS

The financial result, for the twelve months to 31 December 2012 reflects improved market conditions constrained by supply chain capacity and working capital limitations.

Turnover for the twelve month period was £45.1m compared with £48.3m in the full year to December 2011. This reflects the company's inability to address the demand for its products because of constraints within the supply chain and working capital limitations.

The loss in the period of £14.5m (2011: £16.4m loss) arose from trading, reflecting the low sales volumes.

As at the end of 2012, a review was undertaken of the carrying value of assets in the Powered Access division and it was concluded no further impairment was required.

The balance sheet remains robust, with total assets at the end of December of £43m (2011: £45m). Net Current Assets were £20.9m (2011: £22.6m) with cash balances of £2.2m and no borrowing. The company has identified sources of capital and is in the middle of a process designed to ensure it has sufficient working capital that should allow it to work through the current trading conditions.

No dividend has been paid or proposed for the year (2011: £nil). The loss of £14.5m (2011: £16.4m) has been transferred to reserves.

REVIEW OF THE BUSINESS

The year showed an increase in demand for the companies products and the company examined ways in which to respond cautiously to that demand. The company raised equity of £12m through a private placing of its shares. This additional cash was used to assist the company's efforts to respond to the increased demand. As a result the company was able to grow the business to respond to that demand, but were then held back by supply chain constraints, which increased the working capital required to grow further.

A detailed review of the business is included in the financial and business review on pages 4 to 5 including the KPIs on page 4.

FUTURE DEVELOPMENTS

The company entered into a confidential invoice discounting facility with Close Brothers Invoice Finance during February 2013.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, the group has made no political or charitable donations (2011 - £nil).

FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash, finance leases and short term debtors and creditors arising from its operations. The principal financial instruments used by the Group are cash balances raised from share issues by the company and are applied in financing the group's property, plant and equipment. The Group has not established a formal policy on the use of financial instruments but assesses the risks faced by the Group as economic conditions and the Group's operations develop.

MARKET VALUE OF LAND AND BUILDINGS

The directors are of the opinion that the market value of properties at 31 December 2012 would exceed the net book values included in the financial statements. They are unable to quantify this excess in the absence of a professional valuation, the costs of which are not considered justifiable in view of the group's intention to retain ownership of its existing properties for use in its business for the foreseeable future.

RESEARCH AND DEVELOPMENT

The Group maintains a development programme as continuity of investment in this area is essential for the maintenance of the Group's market position and for future growth.

RISKS AND UNCERTAINTIES

The business is reliant on continued sales within its end markets, the pricing levels in those markets and the continued performance of its supply chain. These markets have been subject to a sustained period of low demand and future performance in those markets is uncertain.

The company needs to raise additional capital to fund its return to growth. The three options as sources of working capital are: Realisation of the value of its Smith investment; Equity injection from shareholders; Sale of its Snorkel Aerial Work Platform business. The success of any of these is uncertain.

The group buys the majority of its powered access components and sells the majority of its powered access products in US dollars. Whilst that allows a natural hedge of those products, it does affect pricing in non US dollar markets, adding to the uncertainty.

EVENTS SINCE THE END OF THE YEAR

The company entered in to a confidential invoice discounting facility with Close Brothers Invoice Finance. The company is carrying out a sales process with a Mergers and Acquisitions advisor for the disposal of the Snorkel Powered Access division.

DIRECTORS' REPORT (Continued)

EMPLOYEE INVOLVEMENT

The Group encourages the involvement of its employees through regular dissemination of information of particular concerns to employees.

To facilitate this, the company undertakes a Communications forum where all employees are represented by a colleague within their department at regular meetings with senior managers.

DIRECTORS

The present membership of the board is set out on page 3. Dr JM Bridge and JN Wooding resigned on 8 March 2012.

All directors have the right to acquire shares in the company via the exercise of options granted under the terms of their service contracts, copies of which may be inspected by shareholders upon written application to the company secretary. Details of the directors' options to acquire shares are set out in the Directors' Remuneration Report on pages 9 to 10.

POLICY ON PAYMENT OF CREDITORS

It is group policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice. The company supports and the UK based businesses follow the CBI Prompt Payers Code. A copy of the code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU.

Trade creditor days based on creditors at 31 December 2012 were 117 days. (2011: 100 days)

SUBSTANTIAL SHAREHOLDINGS

On 31 December 2012 the following held substantial shares in the company. No other person has reported an interest of more than 3% in the ordinary shares.

	No.	%
THE BANK OF NEW YORK (NOMINEES)	21,072,650	16.34%
HSBC GLOBAL CUSTODY NOMINEE (UK)	18,541,854	14.37%
VIDACOS NOMINEES LIMITED	13,175,899	10.21%
UBS PRIVATE BANKING NOMINEES LTD	10,174,079	7.89%
CHASE NOMINEES LIMITED	8,057,664	6.25%
STATE STREET NOMINEES LIMITED	7,639,944	5.92%
LYNCHWOOD NOMINEES LIMITED	5,774,455	4.48%
TD DIRECT INVESTING NOMINEES	5,579,301	4.33%

RRE Stanley holds shares of 9.8% which are held through nominee companies. DS Kell holds shares of 2.7% which are held through nominee companies.

DIRECTORS' INTEREST IN CONTRACTS

No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the company or any of its subsidiary undertakings.

AUDITORS

A resolution to reappoint Baker Tilly UK Audit LLP as auditors will be put to the members at the annual general meeting. Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

DISABLED PERSONS

The group will employ disabled persons when they appear to be suitable for a particular vacancy and every effort is made to ensure that they are given full and fair consideration when such vacancies arise. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development to disabled employees wherever appropriate.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors in office on the date of approval of the financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

DIRECTORS INDEMNITY

Every Director shall be indemnified by the company out of its own funds.

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

Charles Brooks
Director

27 June 2013

CORPORATE GOVERNANCE

Principles of Corporate Governance

The company is committed to high standards of corporate governance. The Board is accountable to the company's shareholders for good corporate governance. The company has partially complied throughout the year with the code of best practice set out in the UK Corporate Governance Code (effective for periods commencing on or after 29 June 2010) appended to the Listing Rules of the Financial Services Authority.

The role of the Board is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the company's strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives and reviews management performance. The Board sets the company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

Board Structure

During the year the Board comprised the Non-Executive Chairman and Chief Executive, two other Executive Directors, and two independent Non-Executive Directors. In addition, until their resignation on 8 March 2012, two other independent Non-Executive Directors were members of the board.

Board Role

The Board is responsible to shareholders for the proper management of the Group. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information and there is a procedure for all Directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group. The Board has a formal schedule of matters reserved to it. It is responsible for overall group strategy, approval of major capital expenditure projects and consideration of significant financing matters. The Board met on six separate occasions in the year.

Appointment and Induction of Directors

The composition of the Board is kept under review with the aim of ensuring that the directors collectively possess the necessary skills and experience to direct the Group's business activities.

Board Committees

The Board delegates certain matters to its two principal committees, which deal with remuneration and audit.

Remuneration Committee

During the year the Remuneration Committee comprised Roy Stanley and John Pither.

The Remuneration Committee determines and agrees with the Board the framework of remuneration for the Executive Directors. The Board itself determines the remuneration of the Non-Executive Directors.

There was one remuneration committee meeting in the period which was fully attended.

The report on Directors' remuneration is set out on pages 9 to 10.

Audit Committee

During the year the Audit Committee comprised the Non-Executive Directors Martin Groak and John Pither. Meetings are also attended, by invitation, by the Group Finance Director.

The Audit Committee is responsible for:

- Reviewing the scope of external audit, to receive regular reports from Baker Tilly UK Audit LLP.
- Reviewing the half-yearly and annual accounts prior to their recommendation to the Board.
- Reviewing the Group's internal financial controls and risk management systems and processes.
- Making recommendations on the appointment, re-appointment and removal of external auditors and approving the terms of engagement.
- Reviewing the nature of the work and level of fees for non-audit services provided by the external auditors.
- Assessing the independence, objectivity and effectiveness of the external auditor.

The committee met on two occasions during the year and they were fully attended.

Internal Control

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute assurance against material misstatement or loss.

The Board are of the view that due to the current size and composition of the Group, that it is not necessary to establish an internal audit function.

Relations with Shareholders

The Company values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy.

Private investors are encouraged to participate in the Annual General Meeting at which the Chairman presents a review of the results and comments on current business activity. The Chairmen of the Audit and Remuneration Committees will be available at the Annual General Meeting to answer any shareholder questions.

Notice of Annual General Meeting will be issued in due course.

Going Concern

The directors confirm that they are satisfied that the Company and Group have options as sources of additional working capital, as set out on Page 18, to provide adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Darren Kell
Chief Executive 27 June 2013

DIRECTORS' REMUNERATION REPORT

Remuneration committee

The company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the committee during the year were JN Bridge and M Groak and the committee was chaired by JN Bridge. After 8 March 2012 the committee was comprised of Roy Stanley and John Pither.

In determining the directors' remuneration for the year, the committee consulted the Chief Executive DS Kell and the Finance Director CD Brooks about its proposals.

Remuneration policy

The policy of the committee is to reward executive directors in order to recruit, motivate and retain high quality executives within a competitive market place.

There are four main elements of the remuneration packages for executive directors and senior management:

- Basic annual salary (including directors' fees) and benefits;
- Annual bonus payments;
- Share option incentives; and
- Pension arrangements.

Basic salary

Basic salary is reviewed annually in March with increases taking effect from 1 April. In addition to basic salary, the executive directors also receive certain benefits in kind, principally private medical insurance.

Annual bonus

The committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The purpose of the bonus is to reward executive directors and other senior employees for achieving above average performance which also benefits shareholders. Performance bonuses were paid as set out in the table on page 10.

Share options

The executive and non executive directors have options granted to them under the terms of the Share Option Scheme. There are no performance conditions attached to the share options. Share options were awarded as set out in the table on page 10.

Pension arrangements

Executive directors are members of a money purchase pension scheme to which the group contributes. Their dependants are eligible for dependants' pension and the payment of a lump sum in the event of death in service. No other payments to directors are pensionable.

Directors' contracts

It is the company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice. In the event of early termination, the directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

Non executive directors

The fees of non-executive directors are determined by the board as a whole having regard to the commitment of time required and the level of fees in similar companies.

Non-executive directors are employed on renewable fixed term contracts not exceeding three years.

Board changes

On 8 March 2012 JN Bridge and JM Wooding resigned as directors.

Directors interests

The interests of directors holding office at the year end in the company's ordinary 5p shares at 31 December 2012 and 1 January 2012 are shown below:

	Number of shares	
	2012	2011
RRE Stanley	12,617,661	12,378,756
DS Kell	3,447,811	3,447,811
CD Brooks	28,563	28,563
BJ Campbell	106,363	106,363
M Groak	-	-
J Pither	815,084	815,084
Total	17,015,482	16,776,577

The directors, as a group, beneficially own 13% of the company's shares.

All directors have the right to acquire shares in the company via the exercise of options granted under the terms of their service contracts, copies of which may be inspected by shareholders upon written application to the company secretary.

DIRECTORS' REMUNERATION REPORT (continued)

Remuneration review

Directors emolument for the financial year were as follows:

	Salary	Benefits in kind	Bonuses	Total 2012	Total 2011	Pension Total 2012	Pension Total 2011
RRE Stanley	82	18	10	110	83	15	4
DS Kell	311	18	130	459	406	58	26
CD Brooks ^a	230	18	80	328	306	15	15
BJ Campbell	208	18	50	276	246	35	17
JN Bridge ^d	4	-	-	4	26	-	-
M Groak	28	-	10	38	26	-	-
JM Wooding ^b	21	-	-	21	25	-	-
J Pither ^c	33	-	10	43	30	-	-
Total	917	72	290	1,279	1,158	123	62

^a CD Brooks received a loan in a previous year of £31k which was outstanding at 31 December 2012.

^b Mr Wooding is paid through Simkat Consultants. Mr Wooding resigned 8 March 2012.

^c J Pither is paid through Surrey management services.

^d JN Bridge resigned 8 March 2012.

Directors share options held at 31 December 2012 were as follows:

	31 December 2011 ^f	Granted/ Lapsed	Exercised	31 December 2012	Option price per share ^{e,g}	Date from which normally exercisable ^f	Expiry Date
DS Kell	411,334	-	-	411,334	1p	01/03/2009	01/03/2016
	860,000	-	-	860,000	1p	02/01/2010	02/01/2017
	1,800,000	-	-	1,800,000	27p	21/01/2014	21/01/2021
CD Brooks	250,000	-	-	250,000	1p	14/06/2009	14/06/2016
	200,000	-	-	200,000	1p	02/01/2010	02/01/2017
	1,100,000	-	-	1,100,000	27p	21/01/2014	21/01/2021
BJ Campbell	140,000	-	-	140,000	5p	14/09/2008	14/09/2015
	50,000	-	-	50,000	1p	01/03/2009	01/03/2016
	320,000	-	-	320,000	1p	02/01/2010	02/01/2017
	900,000	-	-	900,000	27p	21/01/2014	21/01/2021
RRE Stanley	800,000	-	-	800,000	1p	02/01/2010	02/01/2017
JN Bridge	30,000	-	-	30,000	1p	01/03/2009	01/03/2016
M Groak	30,000	-	-	30,000	1p	01/03/2009	01/03/2016
J Pither	200,000	-	-	200,000	27p	21/01/2014	21/01/2021
Total	7,091,334	-	-	7,091,334			

^e Certain option agreements allow for the option price to reduce in the event of a demerger.

^f Certain share option agreements have a clause that allows the options to be exercised early if market capitalisation exceeds a certain level.

^g On 31 December 2012 the market price of the ordinary shares was 26.88p. The range during 2012 was 22.50p to 68.25p

Approval

This report was approved by the board of directors and authorised for issue on 27 June 2013 and signed on its behalf by:

Roy Stanley
Chairman of Remuneration Committee

TANFIELD GROUP PLC FINANCIAL STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the 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. The directors are required by the AIM rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit and loss of the group for that period.

In preparing each of the group and company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRSs adopted by the EU;
- d. 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 group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Tanfield Group plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

REPORT OF THE INDEPENDENT AUDITOR

Independent auditor's report to the members of Tanfield Group PLC

We have audited the group and parent company financial statements ("the financial statements") on pages 13 to 41. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 more fully explained in the Directors' Responsibilities Statement set out on page 11, 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 (APB'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 APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 December 2012 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of disclosures made in the accounting policies on page 18 of the financial statements concerning the Group's and Parent Company's ability to continue as a going concern. The group incurred a loss of £14,524,000 during the year ended 31 December 2012 and in order to continue as a going concern for a period of at least one year from the date of approval of these financial statements needs to raise additional working capital from the sources detailed on page 18 of the financial statements. This condition, along with the other matters explained on page 18 of the financial statements, indicates the existence of a material uncertainty which may cast significant doubt about the Group's and the Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or the Parent Company were unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

ALAN AITCHISON (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
1 St James' Gate
Newcastle upon Tyne
NE1 4AD

27 June 2013

TANFIELD GROUP PLC FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000's	2011 £000's
Continuing operations			
Revenue	1	45,072	48,305
Changes in inventories of finished goods and WIP	16	2,889	(2,848)
Raw materials and consumables used		(34,243)	(33,250)
Staff costs	3	(18,760)	(17,143)
Depreciation and amortisation expense	4	(1,739)	(1,595)
Other operating expenses	6	(8,493)	(8,461)
Loss from continuing operations before impairments		(15,274)	(14,992)
Impairment of receivables		-	(250)
Loss from continuing operations after impairments		(15,274)	(15,242)
Finance expense	5	(127)	(286)
Finance income	5	146	470
Net finance income		19	184
Loss from continuing operations before tax, investment and associate		(15,255)	(15,058)
Reassessment of carrying value of associate		-	(1,280)
Reassessment of carrying value of investment		1,280	-
One off costs directly associated with Smiths investment		(470)	-
Loss before taxation		(14,445)	(16,338)
Taxation	7	(79)	(186)
Loss for the year from continuing operations		(14,524)	(16,524)
Discontinued operations			
Profit on disposal of operations		-	173
Loss for the year		(14,524)	(16,351)
Other comprehensive income, net of tax:			
Currency translation differences		(958)	694
Total comprehensive income for the year		(15,482)	(15,657)

TANFIELD GROUP PLC FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	£000's	£000's
Loss for the year attributable to:		
Owners of the parent		
From continuing operations	(14,543)	(16,510)
From discontinued operations	-	173
	(14,543)	(16,337)
Non-controlling interest		
From continuing operations	19	(14)
Loss for the year	(14,524)	(16,351)
Total comprehensive income for the year attributable to:		
Owners of the parent	(15,501)	(15,643)
Non-controlling interest	19	(14)
Total comprehensive income for the year	(15,482)	(15,657)
Loss per share		
Loss per share from continuing operations		
Basic (p)	8	(12.0)
Diluted (p)	8	(12.0)
Loss per share from discontinued operations		
Basic (p)	8	-
Diluted (p)	8	0.2

TANFIELD GROUP PLC FINANCIAL STATEMENTS

CONSOLIDATED AND COMPANY BALANCE SHEETS (Company registration number 04061965)

AS AT 31 DECEMBER 2012

	Notes	Group		Company	
		2012 £000's	2011 £000's	2012 £000's	2011 £000's
Non current assets					
Intangible assets	9	3,940	5,023	-	-
Property, plant and equipment	11	2,885	3,324	-	-
Investment in Associate	15	-	-	-	1,280
Non current Investment	13	1,280	-	1,280	-
Investments in subsidiaries	31	-	-	10,685	1,008
		8,105	8,347	11,965	2,288
Current assets					
Inventories	16	22,869	21,495	-	-
Trade and other receivables	17	9,063	10,753	19,002	27,780
Current Investments	12	474	498	-	-
Current tax assets		-	-	-	-
Deferred consideration	10	339	341	339	341
Cash and cash equivalents	14	2,198	3,463	402	1,278
		34,943	36,550	19,743	29,399
Total assets		43,048	44,897	31,708	31,687
Current liabilities					
Trade and other payables	18	13,398	13,034	1,915	2,084
Provisions	24	577	621	-	-
Tax liabilities		15	189	-	-
Obligations under finance leases	19	70	60	-	-
		14,060	13,904	1,915	2,084
Non-current liabilities					
Obligations under finance leases	19	137	208	-	-
Deferred tax liabilities	20	375	375	-	-
		512	583	-	-
Total liabilities		14,572	14,487	1,915	2,084
Equity					
Share capital	21	6,450	4,728	6,450	4,728
Share premium	21	14,823	3,097	14,823	3,097
Share option reserve		1,885	1,785	1,885	1,785
Special reserve		66,837	66,837	66,837	66,837
Merger reserve		1,534	1,534	1,534	1,534
Translation reserve		11,168	12,126	-	-
Retained earnings		(74,223)	(59,680)	(61,736)	(48,378)
Equity attributable to the owners of the parent		28,474	30,427	29,793	29,603
Non controlling interests	23	2	(17)	-	-
Total equity		28,476	30,410	29,793	29,603
Total equity and total liabilities		43,048	44,897	31,708	31,687

The financial statements on pages 13 to 41 were approved by the board of directors and authorised for issue on 27 June 2013 and are signed on its behalf by:

Charles Brooks
Group Finance Director

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

CONSOLIDATED	Attributable to the owners of the parent								Total
	Share capital	Share premium	Share option reserve	Merger reserve	Special reserve ^a	Translation reserve	Retained earnings	Non-controlling interests	
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	
Balance at 1 January 2011	4,704	827	1,764	1,534	66,837	11,432	(42,611)	(3)	44,484
Comprehensive income									
Loss for the year	-	-	-	-	-	-	(16,337)	(14)	(16,351)
Other comprehensive income									
Currency translation differences	-	-	-	-	-	(57)	-	-	(57)
Total other comprehensive income for the year						(57)			(57)
Total comprehensive income for the year						(57)	(16,337)	(14)	(16,408)
Transactions with owners in their capacity as owners:-									
Issue of shares to settle deferred consideration	23	2,270	-	-	-	751	(751)	-	2,293
Share based payments (note 25)	1	-	21	-	-	-	19	-	41
At 31 December 2011	4,728	3,097	1,785	1,534	66,837	12,126	(59,680)	(17)	30,410
Comprehensive income									
Loss for the year	-	-	-	-	-	-	(14,543)	19	(14,524)
Other comprehensive income									
Currency translation differences	-	-	-	-	-	(958)	-	-	(958)
Total other comprehensive income for the year						(958)			(958)
Total comprehensive income for the year						(958)	(14,543)	19	(15,482)
Transactions with owners in their capacity as owners:-									
Issuance of new shares (note 21)	1,721	11,726	-	-	-	-	-	-	13,447
Share based payments (note 25)	1	-	100	-	-	-	-	-	101
At 31 December 2012	6,450	14,823	1,885	1,534	66,837	11,168	(74,223)	2	28,476

COMPANY	Attributable to the owners of the parent								Total
	Share capital	Share premium	Share option reserve	Merger reserve	Special reserve ^a	Translation reserve	Retained earnings	Non-controlling interests	
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	
Balance at 1 January 2011	4,704	827	1,764	1,534	66,837	-	(33,577)	-	42,089
Comprehensive income									
Loss for the year	-	-	-	-	-	-	(14,820)	-	(14,820)
Total comprehensive income for the year							(14,820)		(14,820)
Transactions with owners in their capacity as owners:-									
Issue of shares to settle deferred consideration	23	2,270	-	-	-	-	-	-	2,293
Share based payments (note 25)	1	-	21	-	-	-	19	-	41
At 31 December 2011	4,728	3,097	1,785	1,534	66,837	-	(48,378)	-	29,603
Comprehensive income									
Loss for the year	-	-	-	-	-	-	(13,358)	-	(13,358)
Total comprehensive income for the year							(13,358)		(13,358)
Transactions with owners in their capacity as owners:-									
Issuance of new shares (note 21)	1,721	11,726	-	-	-	-	-	-	13,447
Share based payments (note 25)	1	-	100	-	-	-	-	-	101

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Group		Company	
	2012 £000's	2011 £000's	2012 £000's	2011 £000's
Continuing and discontinuing operations				
Loss before interest and taxation	(14,464)	(16,349)	(13,428)	(15,074)
Depreciation and amortization	1,739	1,595	-	-
Loss on deferred consideration currency fluctuations	99	337	99	337
Loss on disposal of fixed assets	43	128	-	-
Profit on disposal of operations	-	(173)	-	(529)
Impairment of receivables	-	250	-	-
Gain on reassessment of carrying value of investment	(1,280)	-	-	-
Loss on reassessment of carrying value of associate	-	1,280	-	-
Loss on intercompany loan write off	-	-	9,787	14,666
Loss on impairment of investments	-	-	2,323	839
Operating cash flows before movements in working capital	(13,863)	(12,932)	(1,219)	239
Decrease (increase) in receivables	3,239	(310)	944	(8,479)
Increase in payables	788	1,537	(169)	519
(Decrease) increase in provisions	(44)	349	-	-
(Increase) decrease in inventories	(2,105)	3,910	-	-
Net cash (used in) operations	(11,985)	(7,446)	(444)	(7,721)
Interest paid	(127)	(286)	-	(12)
Income taxes paid	(222)	(60)	-	(8)
Net cash used in operating activities	(12,334)	(7,792)	(444)	(7,741)
Cash flow from Investing Activities				
Purchase of property, plant and equipment	(310)	(390)	-	-
Receipt of deferred consideration	-	7,756	-	7,756
Purchase of investments	(49)	(76)	(12,000)	-
Purchase of intangible fixed assets	(57)	(232)	-	-
Loan to Smith Electric Vehicles US Corp	(1,935)	-	(1,935)	-
Interest received	131	453	56	253
Net cash (used in) from investing activities	(2,220)	7,511	(13,879)	8,009
Cash flow from financing activities				
Proceeds from issuance of ordinary shares net of costs	13,447	-	13,447	-
New obligations under finance leases in the period	-	274	-	-
Repayments of obligations under finance leases	(61)	(202)	-	-
Net cash from financing activities	13,386	72	13,447	-
Effect of exchange rate changes on cash and cash equivalents	(97)	35	-	-
Net (decrease) increase in cash and cash equivalents	(1,265)	(174)	(876)	268
Cash and cash equivalents at the start of year	3,463	3,637	1,278	1,010
Cash and cash equivalents at the end of the year	2,198	3,463	402	1,278

ACCOUNTING POLICIES

(i) Basis of preparation of the financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"), IFRIC interpretations and the requirements of the Companies Act applicable to Companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, modified for the revaluation of certain financial assets and liabilities at fair value.

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed below in "Critical accounting estimates and key judgements".

(ii) Going Concern

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future. At 31 December 2012 the Group has cash balances of £2.2m and is debt free. A further £2.1m was raised by a way of a new share issue on 16 April 2013.

The Group has prepared trading forecasts through to December 2016 that include detailed cash flow calculations. The forecasts are based on detailed assumptions as to sales performance by month, product mix and working capital assumptions. The forecasts require the introduction of additional working capital, beyond the £2.1m raised on 16 April 2013, during the period to December 2013 to support the trading going forward. The Directors have identified three options as sources of working capital. These are: Realisation of the value of its Smith investment; Equity injection from shareholders; Sale of its Snorkel Aerial Work Platform business. The Directors continue to explore each of these options and, given the progress on each of these, they are confident that at least one of these will result in the necessary working capital when required. Sensitivities have been prepared to demonstrate the impact of timing for each of the options.

There is inherent uncertainty in any forecast. Such uncertainties include the lack of visibility regarding the sustainability of current levels of order intake in the current economic and financial climate, however the level of orders taken, accumulated order backlog and order prospects is more than adequate to indicate activity levels that support the forecast sales for 2013. Furthermore the company faces additional uncertainties: the risk that the actions that are planned and being put into effect might take more time to complete than forecast; the movement in dollar and euro exchange rates. The Directors feel that a reasonably balanced approach has been taken to these risks in the forecast.

The Directors are confident that the assumptions underlying their forecasts are reasonable and that the Group will be able to operate within its cash balances. Having taken the uncertainties into account the Board believes that it is appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustment to the value of the balance sheet assets or provisions for further liabilities, which would result should the going concern concept not be valid.

(iii) Basis of consolidation

The group financial statements consolidate the financial statements of Tanfield Group plc ('the company') and its subsidiaries, and they incorporate its share of the results of its associates using the equity method of accounting.

- A subsidiary is an entity that is controlled by another entity, known as the parent. Control is power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- An associate is an entity over which another entity has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies.

The results of subsidiaries acquired or disposed are consolidated from and up to the date of change of control.

The costs of an acquisition are measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of any minority interest.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in associates are initially recognised at cost. Subsequent to acquisition, the carrying value of the group's share of post acquisition reserves, less any impairment in the value of individual assets. The income statement reflects the group's share of the results of operations after tax of the associate. In accordance with IAS28 the groups share of post tax loss is limited to its investment.

(iv) Revenue

Service revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue from the sale of goods is recognised when goods are delivered and title has passed.

(v) Leases

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.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the

TANFIELD GROUP PLC FINANCIAL STATEMENTS

lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter an operating lease are also spread on a straight line basis over the lease term.

(vi) Foreign currencies

Transactions in currencies other than sterling, the presentational currency of the group, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities, which are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(vii) Intangible assets

Identifiable intangible assets are recognised when the group controls the asset, it is probable that future economic benefits attributable to the asset will flow to the group and the cost of the asset can be reliably measured. All intangible assets, other than Goodwill, are amortised over their useful economic life.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition and is included as a non current asset.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Computer Software

Computer software comprises computer software purchased from third parties and is carried at cost less accumulated amortisation.

Manufacturing schedules and other intangibles

Manufacturing schedules and other intangible assets have been brought in on the acquisition of businesses and capitalised at a fair value. The intangible assets are carried at cost less accumulated amortisation and impairment losses.

Estimated useful economic lives

The estimated useful economic lives assigned to the principal categories of intangible assets are as follows:

- Computer software 5 years
- Manufacturing schedules 10 years
- Other intangible assets 2 to 10 years

(viii) Research and development

Research expenditure is recognised as an expense in the period in which it is incurred.

Development expenditure is recognised in the income statement in the period in which it is incurred unless it is probable that economic benefits will flow to the group from the asset being developed, the cost of the asset can be reliably measured and technical feasibility can be demonstrated.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives (10 to 15 years).

(ix) Plant, property and equipment

Plant, property and equipment is included in the balance sheet at historical cost, less accumulated depreciation and any impairment losses.

On disposal of property, plant and equipment, the difference between sales proceeds and the net book value at the date of disposal is recorded in the income statement.

Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

- Plant and Machinery 3- 10 years
- Leasehold Land & Buildings over the lifetime of the lease
- Fixtures, fittings and equipment 3- 10 years
- Motor Vehicles 3- 5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

(x) Asset Impairment (excluding Goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(xi) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(xii) Share based payments

The Group issues equity-settled share based payments to certain employees and has applied the requirements of IFRS2 "Share-based payments".

Equity settled share-based payments are measured at fair value at the date of the grant. Fair value is measured using a Black-Scholes model.

The fair value is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

(xiii) Borrowing costs

All borrowing costs are expensed in the income statement in the period in which they are incurred.

(xiv) Financial instruments

Recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial assets

Trade and other receivables

Financial assets within trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount and are subsequently carried at fair value less provisions made for doubtful receivables.

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Provisions are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic conditions.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand less short term bank overdrafts.

Financial liabilities

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received.

Trade and other payables

Financial liabilities within trade and other payables are initially recorded at fair value, which is usually the original invoiced amount, and subsequently carried at historical cost.

Loans and other borrowings

Loans and other borrowings are initially recognised at fair value plus directly attributable transaction costs and are subsequently carried at amortised cost using the effective interest method.

Derivative financial instruments and hedge accounting

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange risks and interest rate risk. The Group does not enter into derivative financial instruments for speculative purposes. Derivative financial assets are included in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.

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(xv) Post retirement benefits

The group operates a defined contribution scheme which is administered by an independent trustee. The group contributions are charged to the income statement as they are incurred.

(xvi) Segmental reporting

IFRS 8 provides segmental information for the Group on the basis of information reported to the chief operating decision-maker for decision-making purposes. The Group considers that the role of chief operating decision-maker is performed by the Tanfield Group PLC'S board of directors.

(xvii) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit 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 by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries 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.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it

relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

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.

(xix) Termination benefits

Termination benefits (leaver costs) are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to the affected employees leaving the group.

(xix) Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

(xx) Investments

Investments are included at cost less amounts written off.

(xxi) Disposal groups held for sale

Disposal groups held for sale are measured at the lower of their carrying amount and fair value less cost to sell and presented separately in the balance sheet from other assets and liabilities. Disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the disposal group is available for immediate sale in its present condition, management are committed to the sale and expect the disposal group to qualify for recognition as a completed sale within one year from the date of classification.

(xxii) Functional and presentational currencies

The consolidated financial statements are presented in sterling which is also the functional currency of the company.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

Critical accounting estimates and key judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise judgement in the process of applying the group's accounting policies. We continually evaluate our estimates, assumptions and judgements based on the most up to date information available.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Intangible assets

Amortisation of intangible assets is charged to the income statement on a straight line basis over the useful economic lives of each intangible asset. The Directors review the assumptions made at the time of acquisitions in the light of current evidence in the market, and estimated useful economic lives and revisited the carrying value of each intangible asset. Significant changes in the carrying values assessed are charged through the income statement as an impairment.

In assessment of the carrying value the directors undertook an impairment review. Given the current situation, the Directors have not conducted an impairment review based on discounted cash flows, but have considered the value to the business of the assets. Given the introduction of capital, these assets will generate cash flows, and if the division is sold, have a value to a purchaser well in excess of the carrying value.

Investments

The status of the Group's holding in Smith Electric Corp was reviewed. Given the successive fundraisings by Smith Electric Corp during 2012, the Group's holding in Smith Electric Corp has been diluted. In addition the Group's influence at board level within Smith Electric Corp has reduced, following the resignation of Group directors from the Smith Electric Corp board and additional non-executive directors joining that board. Smith Electric Corp continues to demonstrate ability to raise capital to fund its development, and as a result the Group considers its receivables from Smith Electric Corp are recoverable in full.

Trade receivables

The Group regularly assesses the recoverability of its trade receivables based on a range of factors including the age of the receivable, creditworthiness of the customer, any credits required to release payments, and changes in that customer's access to credit to fund their purchases. When determining the recoverability of an account the Group makes estimations as to the financial condition of each customer, their importance in providing a route to market, any debt collection strategy in place and their ability to subsequently make payment or provide other future revenue benefits.

Warranty Provision

The Group has reviewed the warranties that it has offered with the sales of its vehicles, and has established a warranty provision to cover the estimated future warranty costs of products sold over the remaining life of the warranty. The estimate of future warranty costs assumes that the recent product developments continue to reduce the warranty support necessary from that in previous periods.

Inventories

In accordance with IAS2 the group regularly reviews its inventory to ensure it is carried at the lower of cost or net realisable value. The management constantly reviews slow moving and obsolete items arising from changes in the product mix demanded by customers, reductions in overall volumes, supplier failures and strategic resourcing decisions.

Obsolescence provisions are calculated based on current market values and future sales of inventories. In situations where market demand changes, significantly altering production volumes, inventories are reviewed to ensure that components have a realistic likelihood of being used in current models in a reasonable timeframe. If this review identifies significant levels of obsolete inventory, this obsolescence is charged to the income statement as an impairment.

Share based payments

The fair value of share options granted are recognised as an employee expense after taking into account the group's best estimate of the number of awards expected to vest allowing for non market and service conditions. Fair value is measured at the date of grant and is spread over the vesting period of the award. The fair value of options and awards granted is measured using the Black Scholes model. Any proceeds received are credited to share capital and share premium when the options are exercised. The group has applied IFRS 2 'Share based payment' to all options.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

Accounting standards, interpretations and amendments to published accounts

The Group considered the implications, if any, of the following amendments to IFRSs during the year ended 31 December 2012.

New and amended standards and interpretations effective from 1 January 2012 adopted by the group

During the year ended 31 December 2012, the Company has not adopted any new IFRS, IAS or amendments issued by the IASB, and interpretations by the IFRS Interpretations Committee, which have had a material impact on the Company's consolidated financial statements.

New and amended standards and interpretations effective from 1 January 2013 not yet adopted by the group

The group currently adopts all relevant accounting standards that have been endorsed by the EU. There are various standards that are expected to be endorsed in 2013 which the group believes will have no significant impact on the group's financial position or results for the current or prior years but may impact the accounting for future transactions or arrangements.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS

1. Revenue

An analysis of the group's revenue is as follows:

	2012 £000's	2011 £000's
Continuing operations	45,072	48,305
Total	45,072	48,305

2. Segmental analysis

Operating segments

For management purposes, the Group is currently organised into two continuing operating divisions – Powered Access Platforms and other operations. These divisions are the basis on which the Group reports its segment information.

Principal activities are as follows:

Powered Access Platforms: design and manufacture of powered access equipment

Other: design and manufacture of engineering parts and the group holding company

Intra-group revenue generated from the sale of products and services is agreed between the relevant business.

Operating results by line of business

	2012		2011	
	Revenue £000's	Loss £000's	Revenue £000's	Loss £000's
Powered Access Platforms	41,026	(14,583)	44,247	(14,353)
Other	4,046	(691)	4,058	(889)
Segment revenue / loss	45,072	(15,274)	48,305	(15,242)
Finance income		146		470
Finance costs		(127)		(286)
Loss from continuing operations before tax and associate		(15,255)		(15,058)
Reassessment of carrying value of associate		-		(1,280)
Reassessment of carrying value of investment		1,280		-
One off costs directly associated with Smiths IPO		(470)		-
Taxation		(79)		(186)
Loss for the year from continuing operations		(14,524)		(16,524)
Profit on disposal of operations		-		173
Loss for the year from continuing and discontinued operations		(14,524)		(16,351)

Note: The £32m loan forgiveness in 2012 given to Powered Access from Other is excluded from the above summary.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

2. Segmental analysis continued

Assets and liabilities by operating segment¹

	2012 £000's	2011 £000's
Assets		
Powered Access Platforms	35,340	39,373
Investment in Smiths Electric Vehicles US incorporated	1,280	-
Loan to Smiths Electric Vehicles US incorporated	1,852	-
Other	2,039	1,720
Cash and cash equivalents ²	2,198	3,463
Total segment assets	42,709	44,556
Current tax assets	-	-
Deferred consideration	339	341
Total assets	43,048	44,897
Liabilities		
Powered Access Platforms	(11,908)	(11,706)
Other	(2,262)	(2,207)
Total segment liabilities	(14,170)	(13,913)
Current tax liabilities	(15)	(189)
Deferred tax liabilities	(375)	(375)
Retirement benefit obligations	(12)	(10)
Total liabilities	(14,572)	(14,487)

¹ Intercompany loans have been omitted from the asset and liabilities by line of business summary.

² Cash and cash equivalents have been omitted from the assets and liabilities by line of business summary

Geographical information

The Group's revenue from external customers and information about its segment assets (non current assets excluding investments in associated, deferred tax assets and other financial assets) by geographical location are detailed below:

	Revenue		Non-current assets	
	2012 £000's	2011 £000's	2012 £000's	2011 £000's
Continuing operations				
Entity's country of domicile – United Kingdom	5,421	6,426	4,325	5,444
Europe excluding UK	7,727	8,240	-	-
Americas	13,146	13,813	1,978	2,480
Australasia	8,997	11,922	522	420
Other (includes Asia, Africa and rest of the world not classified above)	9,781	7,904	-	3
Total	45,072	48,305	6,825	8,347

Other segment information

	Amortisation and Depreciation		Additions to non-current assets	
	2012 £000's	2011 £000's	2012 £000's	2011 £000's
Powered Access equipment	1,592	1,444	349	590
Other	147	151	18	32
Total	1,739	1,595	367	622

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3. Staff costs

Continuing operations

	2012	2011
	£000's	£000's
Aggregate remuneration comprised		
Wages and Salaries	16,745	15,123
Share scheme expense	110	40
Social Security Costs	1,639	1,786
Other Pension Costs	266	194
Total staff costs	18,760	17,143

In 2012 a further £470k of staff related expenses have been charged to 'one off costs directly associated with Smiths investment' in the consolidated statement of comprehensive income.

	2012	2011
	No.	No.
Average monthly number of employees		
Production	318	282
Head Office, Administration and sales & distribution	188	187
Total	506	469

Details of Directors' fees and salaries, bonuses, pensions, benefits in kind and other benefit schemes together with details in respect of Directors' share option plans are given in the Directors' Remuneration Report on pages 9 to 10.

4. Depreciation and amortisation

Continuing operations

	2012	2011
	£000's	£000's
Depreciation of property, plant & equipment	684	793
Amortisation of intangible fixed assets	1,055	802
Total depreciation and amortisation charge	1,739	1,595
Depreciation of property, plant & equipment		
- owned assets	638	753
- leased assets	46	40

5. Finance expense and finance income

Continuing operations

	2012	2011
	£000's	£000's
Finance expense		
Interest on bank overdrafts, loans & financial instruments	83	276
Interest on obligations under finance leases	44	10
Total finance expense	127	286

	2012	2011
	£000's	£000's
Finance income		
Interest on cash and cash equivalents	91	85
Interest on deferred consideration (note 10)	14	220
Fair value gain on Interest rate swap (note 26)	41	165
Total finance income	146	470

TANFIELD GROUP PLC FINANCIAL STATEMENTS

6. Other operating expenses

	2012 £000's	2011 £000's
Other operating expenses		
Non property related operating lease rentals	78	128
Net loss (gain) on foreign exchange	253	(22)
Auditors' remuneration (see below)	199	184
Other operating expenses	7,963	8,171
Total operating expenses	8,493	8,461

Auditors' remuneration

Amounts payable to Baker Tilly UK Audit LLP and their associates in respect of both audit and non audit services are as follows:

	2012 £000's	2011 £000's
Audit Services		
• statutory audit of parent and consolidated accounts	65	65
Other Services		
• audit of subsidiaries pursuant to legislation, where such services are provided by Baker Tilly UK Audit LLP	65	65
• work provided by associates of Baker Tilly UK Audit LLP in respect of consolidation returns or local legislative requirements	25	10
Other services relating to taxation		
• compliance services	44	44
	199	184
Comprising		
• Audit services	155	140
• Non audit services	44	44

The figures presented are for Tanfield Group plc and subsidiaries as if they were a single entity. Tanfield Group plc has taken the exemption permitted by SI 2005 2417 Reg 5 to omit information about its individual accounts.

The parent, Tanfield Group PLC, is exempt from disclosing its income statement. The loss for the year is £13,358k (2011: loss £14,820k).

TANFIELD GROUP PLC FINANCIAL STATEMENTS

7. Taxation

Analysis of taxation charge for the year

	2012 £000's	2011 £000's
United Kingdom		
Corporation tax at 24.5% (2011: 26.5%)	-	-
Non UK Taxation		
Current	79	186
Total current taxation charge	79	186
Deferred tax		
Origination and reversal of temporary differences	-	-
Total deferred tax charge	-	-
Total taxation charge in the income statement	79	186

Factors affecting taxation charge

The taxation charge on the loss for the year differs from the amount computed by applying the corporation tax rate to the loss before taxation as a result of the following factors:

	2012 £000's	2011 £000's
Loss before taxation	(15,725)	(16,165)
Notional taxation charge at UK rate of 24.5% (2011: 26.5%)	(3,853)	(4,284)
Effects of:		
Non (taxable) deductible expenses	(715)	(758)
Deferred tax asset not recognised in the period	4,647	5,228
Total taxation charge	79	186

TANFIELD GROUP PLC FINANCIAL STATEMENTS

8. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders by the weighted average number of shares in issue during the period.

In calculating the dilution per share, share options outstanding and other potential ordinary shares have been taken into account where the impact of these is dilutive. The average share price during the year was 44.55p (2011: 39.66p).

Number of shares

	2012 No. 000's	2011 No. 000's
Weighted average number of ordinary shares for the purposes of basic earnings per share	121,202	94,339
Effect of dilutive potential ordinary shares from share options	2,736	140
Weighted average number of ordinary shares for the purposes of diluted earnings per share	123,938	94,479

Earnings

	2012 £000's	2011 £000's
From continuing and discontinuing operations		
Earnings for the purposes of basic earning per share being net profit attributable to owners of the parent	(14,543)	(16,337)
Potential dilutive ordinary shares from share options	-	-
Earnings for the purposes of diluted earnings per share	(14,543)	(16,337)

	2012 £000's	2011 £000's
From continuing operations		
Earnings for the purposes of basic earning per share being net profit attributable to owners of the parent	(14,543)	(16,337)
Profit on disposal of discontinued operations	-	(173)
Loss for the purposes of earnings per share from continuing operations	(14,543)	(16,510)
Adjustment for one off items:		
Reassessment of carrying value of associate	-	1,280
Reassessment of carrying value of investment	(1,280)	-
One off costs directly associated with Smiths IPO	470	-
Impairment of receivables	-	250
Loss for the purposes of earnings per share before one off items	(15,353)	(14,980)

	2012	2011
Loss per share from continuing and discontinued operations		
Basic (p)	(12.0)	(17.3)
Diluted (p) ^a	(12.0)	(17.3)
Loss per share from continuing operations		
Basic (p)	(12.0)	(17.5)
Diluted (p) ^a	(12.0)	(17.5)
Loss per share from continuing operations before one off items		
Basic (p)	(12.7)	(15.9)
Diluted (p) ^a	(12.7)	(15.9)
Loss per share from discontinued operations		
Basic (p)	-	0.2
Diluted (p) ^a	-	0.2

^aIAS33 defines dilution as a reduction in earnings per share or an increase in loss per share resulting from the assumption that options are exercised. As the potential dilutive ordinary shares from share options reduce the loss per share these share are omitted from the dilutive loss per share calculation.

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9. Intangible assets

Group	Development Costs £000's	Manufacturing schedules £000's	Other Intangible Assets ^a £000's	Computer Software £000's	Total £000's
Cost					
At 1 January 2011	2,127	13,962	9,486	106	25,681
Additions	224	-	2	6	232
Exchange differences	-	369	-	-	369
Disposals	-	-	(6,458)	(7)	(6,465)
At 31 December 2011	2,351	14,331	3,030	105	19,817
Additions	53	-	4	-	57
Exchange differences	-	(663)	-	-	(663)
At 31 December 2012	2,404	13,668	3,034	105	19,211
Accumulated depreciation					
At 1 January 2011	548	11,724	7,804	59	20,135
Charge for the year	209	292	281	20	802
Exchange differences	-	320	-	-	320
Disposals	-	-	(6,458)	(5)	(6,463)
At 31 December 2011	757	12,336	1,627	74	14,794
Charge for the year	232	296	508	19	1,055
Exchange differences	-	(578)	-	-	(578)
At 31 December 2012	989	12,054	2,135	93	15,271
Carrying amount					
At 31 December 2012	1,415	1,614	899	12	3,940
At 31 December 2011	1,594	1,995	1,403	31	5,023

^a Other intangible assets include trademarks, customer order book and customer lists which arose on previous years business combinations

10. Deferred consideration

The sale and purchase agreement of the group's electric vehicle division on 1 January 2011 allowed for USD 14.25m of the total USD 15.0m consideration to be deferred with interest payable to the group at 4% above the base rate of Barclays Bank PLC on the outstanding balance.

A summary of the movements in deferred consideration is shown below:

	2012 £000's	2011 £000's
Total consideration receivable at 1 Jan	341	9,696
Total consideration received	-	(7,756)
Consideration received in the form of shares in SEV US	-	(1,280)
Total interest receivable on outstanding consideration	14	220
Total interest received	-	(202)
Effects of currency fluctuations	(16)	(337)
Deferred consideration receivable net of interest	339	341

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11. Property, plant and equipment

Group	Land and buildings £000's	Plant and Machinery ^a £000's	Fixtures, Fittings and equipment £000's	Motor Vehicles £000's	Total £000's
Cost					
At 1 January 2011	2,124	4,986	1,036	272	8,418
Additions	12	111	228	39	390
Disposals	-	(122)	-	(37)	(159)
Exchange differences	3	-	6	(7)	2
At 31 December 2011	2,139	4,975	1,270	267	8,651
Additions	32	68	63	147	310
Disposals	-	(95)	-	-	(95)
Exchange differences	(10)	(54)	(24)	(10)	(98)
At 31 December 2012	2,161	4,894	1,309	404	8,768
Accumulated depreciation					
At 1 January 2011	580	3,063	746	150	4,539
Charge for the year	140	419	183	51	793
Disposals	-	(11)	-	(22)	(33)
Exchange differences	2	8	11	7	28
At 31 December 2011	722	3,479	940	186	5,327
Charge for the year	138	365	141	40	684
Disposals	-	(52)	-	-	(52)
Exchange differences	(5)	(45)	(20)	(6)	(76)
At 31 December 2012	855	3,747	1,061	220	5,883
Carrying amount					
At 31 December 2012	1,306	1,147	248	184	2,885
At 31 December 2011	1,417	1,496	330	81	3,324

^a The carrying amount of the group plant and machinery includes an amount of £130k (2011: £176k) in respect of assets held under finance leases. The depreciation charge on those assets for 2012 was £46k (2011: £40k). Various finance leases were fully settled in the year and title of the equipment obtained.

12. Current investments

The Group also holds a money market investment relating to Japanese employee's retirement benefits. The investment is denominated in Japanese Yen (2012: £474k, 2011: £498k).

Group	2012 £000's	2011 £000's
At 1 January	498	395
Additions	49	76
Exchange movements	(73)	27
At 31 December	474	498

13. Non current investment

At 31 December 2012, the group held a 24% (2011: 27.22%) share of the issued share capital of Smith Electric Vehicles US Corp, a company registered in the US. Smith Electric Vehicles US Corp's primary activities involve the manufacture and distribution of Zero Emission Vehicles.

During the year, Tanfield's holding in Smith Electric Corp was diluted by successive fundraisings. In addition, Tanfield's influence at board level has reduced, following the appointment of further non-executive directors. As a result, Tanfield's holding can no longer be considered that of an associate. It is therefore now treated as an investment. As such, it is now being held as a non current investment at the lower of cost and realisable value (2012: £1,280, 2011: £nil).

Company	2012 £000's	2011 £000's
Investment in Smith Electric Vehicles US Corp	1,280	-

TANFIELD GROUP PLC FINANCIAL STATEMENTS

14. Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits held by the group treasury function. The carrying amount of these assets approximates their fair value.

The group primarily holds Sterling, US Dollars, Euros, Australian Dollars and New Zealand Dollars. Currency denominated balances are translated to sterling at the balance sheet date.

	Group		Company	
	2012	2011	2012	2011
	£000's	£000's	£000's	£000's
Cash and cash equivalents	2,198	3,463	402	1,278

15. Associate

At 31 December 2012, the group held a 24% (2011: 27.22%) share of the issued share capital of Smith Electric Vehicles US Corp, a company registered in the US. Smith Electric Vehicles US Corp's primary activities involve the manufacture and distribution of Zero Emission Vehicles. During the year, Tanfield's holding in Smith Electric Corp was diluted by successive fundraisings. In addition, Tanfield's influence at board level has reduced, following the appointment of further non-executive directors. As a result, Tanfield's holding can no longer be considered that of an associate. As such, it is now being held as a non current investment at the lower of cost and net realisable value (Note 13).

GROUP	2011
	£000's
Aggregate amounts relating to associates	
Total assets	23,369
Total liabilities	(87,900)
Net assets / (liabilities)	(64,531)
Group's share of net assets / (liabilities) of associate	(17,565)
Total revenue	31,912
Profit / (loss)	(33,579)
Group's share of profit / (loss) of associate	(9,140)
Reassessment of carrying value of associate - preferred equity securities	1,280
Reassessment of carrying value of associate- other ^a	7,860
Share of post tax loss of associate	-
	2012
	£000's
COMPANY	
Associate	1,280

16. Inventories

In accordance with IAS2 the group regularly reviews its inventory to ensure it is carried at the lower of cost or net realisable value. The directors consider that the carrying amounts of inventories approximates to their fair value.

The group's inventories comprised:

	2012			2011		
	Cost	Provision	Carrying value	Cost	Provision	Carrying value
	£000's	£000's	£000's	£000's	£000's	£000's
Raw materials and consumables	13,859	(3,019)	10,840	16,492	(4,137)	12,355
Work-in-progress	1,791	-	1,791	1,679	-	1,679
Finished Goods and goods for resale	10,680	(442)	10,238	8,097	(636)	7,461
Inventories relating to continuing operations	26,330	(3,461)	22,869	26,268	(4,773)	21,495

Changes in inventories of finished goods and WIP can be calculated as:

	2012	2011
	£000's	£000's
Total finished goods and WIP at 1 January	9,140	11,988
Changes in inventories of finished goods and WIP	2,889	(2,848)
Total finished goods and WIP at 31 December	12,029	9,140

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17. Trade and other receivables

	Group		Company	
	2012 £000's	2011 £000's	2012 £000's	2011 £000's
Current				
Trade amounts receivable	4,718	9,658	-	-
Allowance for estimated irrecoverable amounts	(265)	(587)	-	-
Amounts due from subsidiary undertakings	-	-	16,378	27,713
Other Taxes	41	226	-	-
Loan to Smith Electric Vehicles US Corp	1,852	-	1,852	-
Other debtors and prepayments	2,717	1,456	772	67
	9,063	10,753	19,002	27,780

The directors consider that the carrying amounts of Trade and other receivables approximates to their fair value.

The movements in allowances for estimated irrecoverable amounts are as follows:

	Group	
	2012 £000's	2011 £000's
At 1 January	587	492
Amounts charged to the income statement	48	208
Utilised in the year	(364)	(100)
Exchange differences	(6)	(13)
At 31 December	265	587
Average credit period taken on goods (Days) ^a	36	69

^a Debtor days are calculated as Trade amounts receivable net of allowance for estimated irrecoverable amounts over total sales in the period from continuing operations only multiplied by 365 days.

Trade and other receivables are continually monitored and allowances provided against trade receivables consist of both specific impairments and collective impairments based on the group's historical loss experiences, debt aging and general economic conditions.

Trade receivables including allowance for estimated irrecoverable amounts are due as follows:

	Not past due £000's	Past due but not impaired				Total £000's
		Between 0 and 3 months £000's	Between 3 and 6 months £000's	Between 6 and 12 months £000's	Over 12 months £000's	
2012	3,598	834	13	8	-	4,453
2011	7,572	1,365	80	54	-	9,071

Amounts past due but not impaired have not been provided against if cash has been received after the balance sheet date, balances can be offset against supplier accounts or where the management believes cash will be collected due to continuing relationships.

The Group's credit risk is primarily attributable to its trade receivables. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparts and customers.

At 31 December 2012 £345k (2011: £1,601k) of trade receivables net of allowance for estimated irrecoverable amounts were denominated in Sterling, £2,272k (2011: £3,271k) in US Dollars, £518k (2011: £1,984k) in Australian Dollars, £416k (2011: £1,137k) in Japanese Yen and £1,420k (2011: £1,078k) in other currencies including Euros and NZ Dollars.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

18. Trade and other payables

The directors consider that the carrying amounts of trade and other payables approximates to their fair value.

	Group		Company	
	2012 £000's	2011 £000's	2012 £000's	2011 £000's
Current				
Trade payables	10,109	7,497	137	220
Social security and other taxes	671	607	151	205
Accrued expenses	2,618	4,735	212	197
Fair value of Interest rate collar	-	195	-	-
Amounts due to subsidiary undertakings	-	-	1,415	1,462
	13,398	13,034	1,915	2,084
Average credit period taken on trade purchases (days) ^a	117	100		

^a Creditor days have been calculated as trade payables and accrued expenses over changes in inventories of finished goods and WIP, raw materials and consumables used and other operating expenses multiplied by 365 days. The calculation includes only continuing operations.

19. Obligations under finance leases

Assets held under finance lease mainly relate to plant and machinery assets and are secured on those assets. During the year the group entered into new lease agreements with a capital value of Nil (2011: £275k).

The average lease term is 3 years (2011: 3 years). For the year ended 31 December 2012, the average effective borrowing rate was 18% (2011: 18%). Interest rates are fixed at the contract date.

The directors consider that the carrying amounts of obligations under finance leases approximates to their fair value. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

A summary of the outstanding leases is shown below:

Group	Minimum leases payments		Present value of minimum leases payments	
	2012 £000's	2011 £000's	2012 £000's	2011 £000's
Amounts payable under finance leases				
Within one year	102	103	70	60
In the second to fifth years (inclusive)	162	266	137	208
	264	369	207	268
Less: future finance charges	(57)	(101)	-	-
Total finance lease obligations	207	268	207	268

20. Deferred taxation

Group	Tax losses £000's	Other £000's	Total £000's
At 1 January 2011	-	(375)	(375)
Charge to the income statement	-	-	-
At 1 January 2012	-	(375)	(375)
Deferred tax asset	-	-	-
Deferred tax liability	-	(375)	(375)
At 1 January 2012	-	(375)	(375)
Charge to the income statement	-	-	-
At December 2012	-	(375)	(375)
Deferred tax asset	-	-	-
Deferred tax liability	-	(375)	(375)
At December 2012	-	(375)	(375)

At 31 December 2012, the group had unused tax losses of £132m (2011: £113m). The losses have arisen in various jurisdictions and various locations and will be relived against future profits from these locations. No deferred tax asset has been recognised in respect of the £132m (2011: £113m) due to the unpredictability of profit streams which results in an unrecognised deferred tax asset of £36,292k (2011: £31,325k).

Company

There is no movement in deferred taxation in the current or preceding years.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

21. Share capital and share premium

The Company has one class of ordinary shares which carry no right to fixed income. All shares are fully paid up.

	Nominal share value	Number of shares	Share capital ^c £000's	Share premium £000's
At 1 January 2011	5p	94,077,218	4,704	827
Shares issued to settle outstanding deferred consideration payable	5p	470,000	23	2,270
Share options exercised	5p	20,000	1	-
At 31 December 2011	5p	94,567,218	4,728	3,097
New share issue 13 Feb 2012 ^a	5p	29,268,293	1,464	9,930
New share issue 23 July 2012 ^b	5p	5,135,714	257	1,796
Share options exercised	5p	20,000	1	-
At 31 December 2012	5p	128,991,225	6,450	14,823

^a On 13 Feb 2012 the group announced it would issue 29,268,293 new shares at 41p each. The successful fundraising was completed in two tranches on 17 Feb 2012 and 9 March 2012 for 9,407,720 shares and 19,860,573 shares respectively. The associated costs of £607k have been allocated to the share premium account.

^b On 23 July 2012 the group issued 5,135,714 new shares at 42p each. The associated costs of £104k have been allocated to the share premium account.

^c The authorised share capital of the company throughout 2011 and until 8 March 2012 was £5,000,000, representing 100,000,000 ordinary shares. After 8 March 2012 this increased to £6,463,415, representing 129,268,293 ordinary shares.

22. Operating lease arrangements

At the balance sheet date, the Group as a lessee had future aggregate minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Leasehold Property £000's	Other £000's	Total £000's
2012			
Within one year	2,057	78	2,135
In the second to fifth years inclusive	6,650	119	6,769
Greater than five years	13,886	-	13,886
	22,593	197	22,790
2011			
Within one year	1,366	84	1,450
In the second to fifth years inclusive	5,938	57	5,995
Greater than five years	15,173	-	15,173
	22,477	141	22,618

23. Non controlling interests

The group owns 95% of Tanfield Union Limited, a subsidiary in conjunction with Union Engineering Machinery Systems. The minority interest of 5% relating to Union Engineering Machinery Systems is shown below:

	2012 £000's	2011 £000's
Balance at 1 January	(17)	(3)
Share of profits (losses)	19	(14)
Balance at 31 December	2	(17)

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24. Provisions

The provisions represent the Group's liability in respect of 12 month warranties granted on Powered Access Platforms. The amount provided represent's management's best estimate of the future cash outflows in respect of those products still within warranty at the balance sheet date.

	Warranty provision 2012 £000's	Warranty provision 2011 £000's
At 1 January	621	272
Net movement in provision	(44)	349
At 31 December	577	621

25. Share based payments

IFRS2 requires share based payments to be recognised at fair value. The group measures the fair value of its share based payments to employees, "share options", using the Black-Scholes valuation method.

All share based payments are equity settled and details of the share option activity during 2012 and 2011 are shown below.

	2012		2011	
	Number of share options	Weighted average exercise price (pence)	Number of share options (Restated)	Weighted average exercise price (pence) Restated
Outstanding at the beginning of the year	9,606,334	113	3,826,334	113
Granted	-	-	5,800,000	27
Forfeited	(840,000)	(135)	-	-
Exercised	(20,000)	(5)	(20,000)	(5)
Expired	-	-	-	-
Outstanding at the end of the year	8,746,334	21	9,606,334	61
Exercisable	3,196,334	10	3,806,334	113

The outstanding options at 31 December 2012 had a weighted average remaining contractual life of 6.49 years (2011: 7.38 years)

The following table relates to share options outstanding and exercisable at 31 December 2012

Exercise price (pence)	Option exercise prices				Total
	1p	5p	27p	200p	
No of share options	2,921,334	140,000	5,550,000	135,000	8,746,334
No of exercisable options	2,921,334	140,000	-	135,000	3,196,334

Income statement charge

In accordance with IFRS2 the group determined the fair value of its options at 'grant date'. The group accrues this fair value charge over the share option vesting period. Share options that are forfeited during the year are credited directly to the share option reserve account.

A charge to the income statement of £100k (2011: £40k) and a credit directly to equity of £Nil (2011: £19k) have been made during the year in accordance with IFRS2 'Share-based payments'.

The group uses the Black-Scholes model to value its share options and the following table summaries the fair values and key assumptions used in the models inputs.

	Grant date
Weighted average exercise price	27
Expected volatility ^a	109%
Expected life ^b	6.2 years
Risk free rate	2.5%
Expected dividends	0.0%

^a Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years.

^b The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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26. Financial risk management

The group's operations are exposed to various financial risks which are managed by various policies and procedures. The main risk and their related management are discussed below:

Credit risk management

The group's exposure to credit risk arises from its trading related receivables and cash deposits with financial institutions.

The group's credit policy for trading related receivables is applied and managed by each local operation to ensure compliance. The policy requires that the creditworthiness and financial strength of customers is assessed at inception and on an on going basis. The group uses external credit checking agencies as well as undertaking its own internal reviews of customer finances.

The group's maximum exposure to credit risk is summarised below:

	2012 £'000	2011 £'000
Trade and other receivables	6,305	9,071
Cash and cash equivalents	2,198	3,463
	8,503	12,534

The group did not have any financial instruments that would mitigate the credit exposure arising from the financial assets designated at fair value through profit and loss in either the current or proceeding year.

Liquidity risk management

The group is exposed to liquidity risk arising from having insufficient funds to meet the financing needs of the group.

The group's liquidity management process includes projecting cash flows and considering the level of liquid assets available to meet future cash requirements along with monitoring balance sheet liquidity. The Board reviews forecasts, including cash flow forecasts on a quarterly basis. The group's subsidiaries review their cash on a daily basis to assess short and medium term requirement, these assessments ensure the group responds to possible cash constraints in a timely manner. Requests from group companies for operating finance are met whenever possible from central resources.

Maturity analysis

The table below analyses the Group's financial liabilities on a contractual gross undiscounted cash flow basis into maturity groupings based on amounts outstanding at the balance sheet date up to the contractual maturity date.

	Within 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
2012				
Finance leases	70	137	-	207
Trade and other payables	13,398	-	-	13,398
	13,468	137	-	13,605
2011				
Finance leases	60	208	-	268
Trade and other payables	12,839	-	-	12,839
	12,899	208	-	13,107

Foreign exchange risk management

The group is exposed to movements in foreign exchange rates due to its commercial trading denominated in foreign currencies, the net assets of its foreign operations into the consolidated statements and foreign currency denominated costs.

Where possible the group uses natural hedging of currencies where customer and purchase currencies are matched. If appropriate the group can use currency derivative financial instruments such as foreign exchange contracts to reduce exposure. These were not used in the period.

The material foreign currency denominated costs, include the purchase of components from low cost based countries, principally in US dollars.

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A summary of the sensitivity to foreign exchange movements that the group's equity pre tax is currently exposed to is detailed below:

Currency	Balance sheet rate to GBP	Effect on equity if Sterling strengthens by 10% increase (decrease) £000's	Effect on equity if Sterling weakens by 10% Increase (decrease) £000's
US Dollar	1.62	(809)	890
Euro	1.22	(28)	34
Australian dollar	1.56	(495)	606
New Zealand dollar	1.97	(79)	97
Japanese Yen	138.7	(288)	353

Interest rate risk management

The Group is exposed to interest rate risk due to its cash deposits, invoice discounting facilities and interest rate collar. Cash and cash equivalents are the only interest bearing financial assets held by the Group. The group regularly reviews the short term cash requirements against the benefit of placing funds on term deposit to ensure the best available rates of interest are obtained.

At 31 December 2012 the group had no borrowings. Future risk is limited to new borrowings if the group were to enter into any borrowing agreements.

The group manages its exposure to interest rate risk against its obligations under finance leases by fixing the rate of interest over the term of the lease.

The interest rate collar was settled on 2 March 2012 but was initially taken out when the group had a borrowing facility to protect the group from increases in interest rates. The risk was limited to the event that rates fall below that at the balance sheet date. In accordance with IAS39 the interest rate collar is not classified as a hedging instrument.

Details of the collar is summarised below:

Instrument	Notional principal	Cap	Floor	Maturity date	Derivative Liability 2012 £000's	Derivative Liability 2011 £000's
US Dollar interest rate collar	\$10m	5.00%	3.65%	31 Oct 2012	-	301

The interest payable under the collar is recognised through the statement of comprehensive income £36k (2011: £216k) within Interest on bank overdrafts, loans and financial instruments (Note 5). The volatility arising on the collar is also recognised in the statement of comprehensive income £41k gain (2011: £165k gain) and disclosed separately within finance expenses and finance income (Note 5).

The liability is denominated in US Dollars and a currency exchange loss of £1k (2011: £6k loss) has also been recognised in the statement of comprehensive income within other operating expenses.

Capital management

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group trades profitably in the future. The Group also aims to maximise its capital structure of debt and equity so as to minimise its cost of capital.

The Group manages its capital with regard to risks inherent in the business and the sector in which it operates by monitoring its gearing ratio on a regular basis.

The Group considers its capital to include share capital, share premium, special reserve, translation reserve and retained earnings. No gearing is currently calculated as the Group currently has no borrowings.

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27. Related party transactions

Group

Transactions between the Company and its subsidiaries and between subsidiaries, which are related parties, have been eliminated on consolidation. These transactions are a management charge from Tanfield Group PLC to its subsidiaries. The bank hold a cross guarantee in relation to all the Group Company bank accounts.

Company

The Company entered into transactions with its subsidiaries as disclosed below.

	2012 £000's	2011 £000's
Net position at 1 January	26,251	42,908
Management charges	3,250	2,535
Impairments net of intercompany loan forgiveness ^a	(9,787)	(14,666)
Other transactions including new loans issued and cash balances received	(4,751)	(4,526)
Net position at 31 December	14,963	26,251

^a During 2012 the company formally forgave £32m of its intercompany receivable from Tanfield Powered Access Limited, £21,831k of the £32m had previously been impaired resulting in a net charge in the year of £10,169k (2011: £6,677k). During 2012 the company also wrote back previously impaired balances against Tanfield Asia Pacific PTE.Ltd £69k and Tanfield Union £313k.

Transactions with its associate

During the year the company loaned £1,935k of cash to the Smith Electric Vehicles US Corp.

During the year the group bought goods of £34k (2011: £Nil) from its associate, Smith Electric Vehicles US Corp.

During the year the group recharged £800k (2011: £860k) to Smith Electric Vehicles Europe Ltd for property related costs. These transactions have been deducted from other operating expense in the statement of comprehensive income. At 31 December 12 there was an outstanding balance due from Smiths Electric Vehicles Europe Ltd of £739k (2011: £201k) and an outstanding balance due to Smiths Electric Vehicles Europe Ltd of £34k (2011: Nil) relating to the these transactions.

Remuneration of key personnel

The remuneration of the key management personnel, which includes Directors, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the Directors' Remuneration Report on pages 9 to 10.

Directors emoluments are shown in the table below:

	2012 £000's	2011 £000's
Salaries and short term benefits including NI	1,433	1,289
Post employment benefits	123	62
	1,556	1,351

Transactions with directors

There were no other transactions with Directors during the year.

28. Retirement benefits

The Group operates defined contribution retirement benefit plans for all qualifying employees of its construction and leasing divisions in the UK. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of the Group's subsidiary in Australia are members of a state-managed retirement benefit scheme operated by the government of Australia. The subsidiary is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £266k (2011:£194k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2012, contributions of £12k (2011: £10k) due in respect of the current reporting period had not been paid over to the schemes.

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29. Financial instruments recognised in the balance sheet

Assets	2012			2011		
	Loans and receivables £000's	Assets Held to maturity ^a £000's	Total £000's	Loans and receivables £000's	Assets Held to maturity ^a £000's	Total £000's
Current financial assets						
Trade and other receivables	6,305	-	6,305	9,071	-	9,071
Investments	-	1,754	1,754	-	498	498
Cash and cash equivalents	2,198	-	2,198	3,463	-	3,463
Total	8,803	1,754	10,257	12,534	498	13,032
Liabilities						
	Other financial liabilities £000's	Held for trading ^a £000's	Total £000's	Other financial liabilities £000's	Held for trading ^a £000's	Total £000's
Current liabilities						
Trade and other payables	12,725	-	12,725	12,232	195	12,427
Finance leases	70	-	70	60	-	60
	12,795	-	12,795	12,292	195	12,487
Non current liabilities						
Finance leases	137	-	137	208	-	208
	137	-	137	208	-	208
Total	12,932	-	12,932	12,500	195	12,695

^a Assets and liabilities at fair value through profit and loss.

30. Post balance sheet events

New share issue

On 20 March 2013, the Board of Tanfield announced details of a £2.1m new share placing, advising that it had successfully raised gross proceeds of approximately £2.1 million by way of a placing of 10,500,000 new ordinary shares of 5p each at a price of 20p per share to institutional investors

Debt facility

On 20 February 2013, the Group entered into an asset backed debt facility. The debt facility is secured under separate deeds of guarantee and indemnity given by Tanfield Group PLC, Snorkel Holdings LLC, Snorkel International Inc and Tanfield Powered Access Ltd along with an all asset debenture covering both Tanfield Powered Access Ltd and Snorkel International Inc.

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31. Subsidiary undertakings and Investments

The tables below give brief details of the group's operating subsidiaries and investments at 31 December 2012. All subsidiaries are unlisted. No subsidiaries are excluded from the group consolidation.

Subsidiary undertakings	Principal activity	Group Interest in allotted capital & voting rights	Country of incorporation
Tanfield Engineering Systems US (Inc)	Powered Access	100%	US
Tanfield Powered Access Ltd	Powered Access	100%	UK
Snorkel International Inc	Powered Access	100%	US
Snorkel Australia Limited	Powered Access	100%	AUS
Snorkel New Zealand Limited	Powered Access	100%	NZ
Tanfield Union Limited	Powered Access	95%	Hong Kong
Tanfield Engineering Systems Ltd	Engineering	100%	UK
Snorkel Holdings LLC ^a	Holding Company	100%	US
Tanfield Asia Pacific PTE. Ltd	Non Trading	100%	Singapore
SEV Group Ltd ^a	Non Trading	100%	UK
E-Comeleon Ltd ^a	Non Trading	100%	UK
Express 2 Automotive Ltd ^a	Non Trading	100%	UK
HMH Sheet Metal Fabrications Ltd ^a	Dormant	100%	UK
Norquip Ltd ^a	Dormant	100%	UK
HBWP Inc ^a	Dormant	100%	US

^a Certain entities are not audited as they are either non trading or are not required under local laws.

Investments	Principal activity	Group Interest in allotted capital & voting rights	Country of incorporation
Smith Electric Vehicles US Corp	Electric vehicle manufacture	24.00%	US
Smith Electric Vehicles Europe Ltd ^b	Electric vehicle manufacture	24.00%	UK

^b Smith Electric Vehicle Europe Ltd is a 100% owned subsidiary of Smith Electric Vehicles US Corp. The groups interest in Smith Electric Vehicles Europe Ltd is held indirectly through its investment in Smith Electric Vehicles US Corp.

Details of the investments held in the Company accounts are as follows:

	2012 £000's	2011 £000's
Tanfield Engineering Systems Ltd	1,008	1,008
Tanfield Powered Access Ltd ^c	9,677	-
	10,685	1,008

^c On 20 Dec 2012 the Company acquired 12,000 new shares in Tanfield Powered Access Ltd for a consideration of £12,000k. This investment has been impaired by £2,323k during the year.