Notes to the consolidated financial statements continued

5. Segment information

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

5.1 Accounting policy

(a) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for goods supplied and services rendered to customers after deducting rebates, discounts and value-added taxes, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. A provision for anticipated returns is made based primarily on historical return rates. Where a contractual arrangement consists of two or more separate elements that can be provided to customers either on a stand-alone basis or as an extra, such as the provision of supplementary materials with equipment, revenue is recognised for each element as if it were an individual contractual arrangement.

(b) Research and development costs

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

5.2 Business segments

Operating segments for continuing operations

For reporting purposes, the Group is organised into two main business segments: Steel and Foundry and the senior executive management of each of these business segments reports to the Chief Executive of the Group. It is the Vesuvius Board which makes the key operating decisions in respect of these segments. The information used by the Vesuvius Board to review performance and determine resource allocation between the business segments is presented with the Group's activities segmented between the two business segments, Steel and Foundry. Taking into account the basis on which the Group's activities are reported to the Vesuvius Board, the Directors believe that these two business segments are the appropriate way to analyse the Group's results. The principal activities of each of these segments are described in the Strategic Report on pages 24 to 31.

Segment revenue represents revenue from external customers (inter-segment revenue is not material). Trading profit includes items directly attributable to a segment as well as those items that can be allocated on a reasonable basis.

Discontinued operations

Discontinued operations in 2012 include the results of the Alent group of companies for the period up to 19 December 2012, when they were demerged from Vesuvius, together with the results of the US Precious Metals Processing business for the period up to 1 May 2012 when it was sold and the the results of the European Precious Metals Processing business for the whole of the year. The European Precious Metals business was held for sale as at 31 December 2012 and its results for the period up to 31 May, when it was sold, are reported as discontinued operations in 2013.

5. Segment information (continued)

5.3 Income statement

The operating segment results from continuing operations for 2012 and 2013 are presented below.

	2013		
	Steel £m	**Foundry £m**	**Continuing operations £m**
Segment revenue	**1,017.5**	**493.0**	**1,510.5**
Segment EBITDA	**114.1**	**65.2**	**179.3**
Segment depreciation	**(25.4)**	**(13.9)**	**(39.3)**
Segment trading profit	**88.7**	**51.3**	**140.0**
Amortisation of intangible assets			**(17.4)**
Restructuring charges			**(3.9)**
Operating profit			**118.7**
Net finance costs			**(17.3)**
Share of post-tax profit of joint ventures			**2.5**
Profit on disposal of continuing operations			**0.2**
Profit before tax			**104.1**
Return on sales margin (%)	**8.7**	**10.4**	**9.3**
Capital expenditure additions (£m)	**28.6**	**18.9**	**47.5**

	2012 as restated		
	Steel £m	Foundry £m	Continuing operations £m
Segment revenue	1,017.3	530.2	1,547.5
Segment EBITDA	108.2	66.2	174.4
Segment depreciation	(25.1)	(18.0)	(43.1)
Segment trading profit	83.1	48.2	131.3
Amortisation of intangible assets			(17.5)
Restructuring charges			(57.0)
Demerger costs			(15.7)
Operating profit			41.1
Net finance costs			(21.7)
Share of post-tax profit of joint ventures			0.1
Loss on disposal of continuing operations			(2.3)
Profit before tax			17.2
Return on sales margin (%)	8.2	9.1	8.5
Capital expenditure additions (£m)	38.5	18.7	57.2

Notes to the consolidated financial statements continued

5. Segment information (continued)

5.6 Geographic analysis

	External revenue		Non-current assets	
	2013 £m	2012 £m	**2013 £m**	2012 £m
United States of America	**294.6**	290.4	**216.0**	209.6
Germany	**216.1**	212.5	**114.4**	106.9
China	**109.5**	102.9	**76.1**	69.6
United Kingdom	**79.2**	78.3	**155.6**	167.6
Brazil	**83.9**	93.4	**56.2**	62.3
India	**86.0**	91.3	**36.4**	41.4
France	**56.0**	61.1	**15.7**	14.7
Spain	**42.6**	43.1	**34.2**	44.7
Rest of the world	**542.6**	574.5	**323.7**	347.9
Continuing operations	**1,510.5**	1,547.5	**1,028.3**	1,064.7

External revenue disclosed in the table above is based upon the geographical location of the operation. The Group's customers are widely dispersed around the world and no single country included within Rest of the World in the table above, for either of the years presented, amounts to more than 10% of the total external revenue of continuing operations. Non-current assets exclude employee benefits net surpluses and deferred tax assets.

5.7 Products and customers

Information relating to the Group's products and services is given in the Strategic Report on pages 10 to 47. The Group is not dependent upon any single customer for its revenue and no single customer, for either of the years presented in the tables above, accounts for more than 10% of the Group's total external revenue.

6. Amounts payable to KPMG LLP and its associates

	2013 £m	2012 £m
Fees payable to the Company's Auditor and its associates for the audit of the Company's annual accounts	**0.3**	0.6
Fees payable to the Company's Auditor and its associates for other services:		
Audit of the Company's subsidiaries	**1.4**	2.4
Tax compliance and advisory	**0.2**	0.6
Corporate finance services relating to the demerger	**—**	2.3
Total Auditor's remuneration	**1.9**	5.9

Total Auditor's remuneration of £1.9m in 2013 all related to continuing operations, of which £1.7m related to audit fees and £0.2m of non-audit fees, the latter comprising £0.1m in respect of the interim review fee and £0.1m for taxation advice (2012: £3.0m, including £1.7m of audit fees and £1.3m of non-audit fees, the latter comprising mainly demerger-related fees). In 2012, £2.9m related to discontinued operations, including £1.6m of non-audit fees.