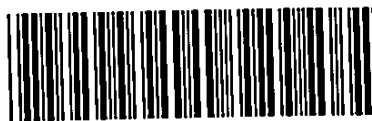


London & Scandinavian Metallurgical Co Limited

Report and Financial Statements

31 December 2010

THURSDAY



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COMPANIES HOUSE

London & Scandinavian Metallurgical Co Limited

Directors

I Resende (Managing Director)
E E Jackson
D J E Beare
W J Levy
S R Thistlethwaite
J Hamer
A Sims

Secretary

J Hamer

Registered Office

Fullerton Road
Rotherham S60 1DL

Auditors

Ernst & Young LLP
1 Bridgewater Place
Water Lane
Leeds LS11 5QR

Bankers

HSBC Bank plc
Rotherham Branch
35 College Street
Rotherham S65 1AF

Solicitors

DLA Piper UK LLP
1 St Paul's Place
Sheffield S1 2JX

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2010. During the year the company and its fully owned subsidiaries adopted International Financial Reporting Standards (IFRS). The transition to IFRS is discussed further in note 33.

Results and dividends

The group income statement for the year is set out on page 8. No dividend was paid during the year (2009 – \$5,000,000, \$0.16 per share) and the directors do not recommend the payment of a final dividend (2009 – \$nil). Capital expenditure was \$3,387,000 (2009 – \$2,632,000).

Principal activity and review of the business

The group continued to manufacture and merchant principally metallurgical products throughout the year.

The group's key financial performance indicators for the year were as follows:

	2010 \$000	2009 \$000
Revenue	255,794	158,466
Profit before taxation	13,985	3,117
Total equity	88,961	75,492
EBITDA	16,946	5,425
Return on capital employed	15.7%	4.1%

The directors are satisfied with the performance of the group for the year ended 31 December 2010. The results show a significant improvement from the difficult trading year of 2009, with a strong improvement in both revenue and underlying profit. The positive performance is expected to continue into 2011.

As revenue increases, a greater demand is being placed on working capital requirements. The directors are closely monitoring the situation to ensure there is sufficient liquidity within the group to continue at current trading levels and to continue to expand the group's activities.

Future developments

The directors believe the group is in a strong financial position. The group continues to invest in product development and capital projects.

Principal risks and uncertainties

The management of the business is subject to a number of risks. The key business risks affecting the group are considered to relate to overseas competitors, currency exchange and metal price volatility.

Competition

The metals industry is highly competitive on a worldwide basis. Competition is primarily based on price, quality and timely delivery. In recent years, price competition has been strong as a result of excess capacity in certain products. In addition, export sales of metals and alloys from Russia and China produced in excess of local demand can severely hurt prices in Europe and the United States, which negatively impacts the prices of some of our products. New entrants may also increase competition in the metals industry, which could adversely affect the group. Although facing competition in each of our markets, we do not believe that any single competitor competes in all of our products or markets.

Directors' report

Principal risks and uncertainties (continued)

Currency exchange and metal price volatility

The group's functional currency is US dollars. A significant proportion of the group's purchases and sales are in US dollars. However, the group has exposures to purchases made in sterling and sales made in Euros. The group has developed policies to manage effectively its currency exposures and minimise the risks of currency fluctuations.

The group has exposures to changes in metal prices. This includes metals that are priced on the London Metal Exchange. The group monitors and manages its exposures on individual metals and has a hedging policy with the aim of minimising the risks of price fluctuations.

Customer risk

The group is exposed to the risk of customers defaulting on trade debtors or not performing on their contracts. The current economic crisis compounds this risk as once sound companies may fail quickly because of existing leverage or lack of financing options. To mitigate this risk, the group has set credit limits on its customers, which it closely monitors and acts accordingly should circumstances arrive.

Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting obligations associated with financial liabilities. The group aims to mitigate liquidity risk by managing cash generation by its operations. In addition, the group has banking facilities in place, in the event further cash flow is required.

Charitable contributions

During the year the group donated a total of \$25,000 (2009 – \$23,000) to UK charitable organisations.

Review of going concern

The group's business activities, together with the factors likely to affect its future development and financial position have been set out in the Directors' report. In addition, the Directors' report also sets out the principal risks and uncertainties. A going concern assessment has been made by the directors with reference to the latest financial performance of the group, 2011 and 2012 forecasts and available cash liquidity. The group's actual performance in 2011 is above forecast levels. The improved financial performance has increased cash requirements but the group has the cash liquidity headroom to accommodate these increased requirements.

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Employees

The group thanks employees at all levels for their continued loyalty and support.

All employees are regularly informed about the business in which they are involved and they and their representatives are consulted on issues directly concerning their interests. The procedures by which these objectives are achieved include formal meetings with representatives and written reports issued within the group.

It is the policy of the group to give full and fair consideration to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Wherever possible, arrangements are made for the continued employment of persons who have become disabled during service and for appropriate training, career development and promotion of disabled employees.

Directors' report

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office as auditors of the company.

By order of the Board



J Hamer
Secretary
26 September 2011

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union ('IFRSs')

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the group and the company and the financial performance and cash flows of the group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance,
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- make judgements and estimates that are reasonable and prudent

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of London & Scandinavian Metallurgical Co Limited

We have audited the financial statements of London & Scandinavian Metallurgical Co Limited for the year ended 31 December 2010 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Statement of Financial Position, the Group Statement of Changes in Equity, the Group Statement of Cash Flows and the related notes 1 to 33. 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 explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the groups and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report

to the members of London & Scandinavian Metallurgical Co Limited

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

Ernst & Young LLP

Peter Buckler (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Leeds

27 September 2011

Group income statement

for the year ended 31 December 2010

		2010	2009
	Notes	\$000	\$000
Continuing operations			
Revenue	3	255,794	158,466
Cost of sales		(228,619)	(145,823)
Gross profit		27,175	12,643
Selling, general and administrative expenses		(13,653)	(10,103)
Restructuring expenses		—	(60)
Operating profit		13,522	2,480
Finance expenses	8	(5,393)	(4,908)
Finance income	8	5,387	5,552
Share of profit/(loss) of associate	13	469	(7)
Profit before taxation		13,985	3,117
Income tax expense	9	(1,143)	(997)
Profit for the year		12,842	2,120
Profit for the year attributable to:			
Non-controlling interests		92	(50)
Equity shareholders		12,750	2,170
		12,842	2,120

Group statement of comprehensive income

for the year ended 31 December 2010

	2010 \$000	2009 \$000
Profit for the year	12,842	2,120
Other comprehensive income/(loss)		
Fair value movements on cash flow hedges	519	7,129
Exchange differences on translation of foreign operations	(243)	49
Tax effect on components of comprehensive income	(145)	(1,996)
Other comprehensive income for the year, net of tax	<u>131</u>	<u>5,182</u>
Total comprehensive income for the year	<u>12,973</u>	<u>7,302</u>
Total comprehensive income for the year attributable to:		
Non-controlling interests	(176)	(29)
Equity shareholders	<u>13,149</u>	<u>7,331</u>
	<u>12,973</u>	<u>7,302</u>

Group statement of financial position

at 31 December 2010

	Notes	2010 \$000	2009 \$000	2008 \$000
Assets				
Non-current assets				
Intangible assets	11	1,510	1,510	1,510
Property, plant and equipment	12	16,413	16,004	16,335
Investments	13	2,439	1,970	1,977
Other non-current assets	14	4,555	3,969	2,587
		<u>24,917</u>	<u>23,453</u>	<u>22,409</u>
Current assets				
Inventories	15	49,537	34,223	40,086
Trade and other receivables	16	52,943	41,249	39,419
Derivative financial instruments	22	2,073	1,861	368
Cash and cash equivalents	17	7,977	4,016	9,270
		<u>112,530</u>	<u>81,349</u>	<u>89,143</u>
Total assets		<u>137,447</u>	<u>104,802</u>	<u>111,552</u>
Equity				
Issued share capital	24	30,698	30,698	30,698
Other reserves	25	28,984	28,089	21,691
Retained earnings		28,766	16,016	18,846
Equity attributable to equity holders of the parent		<u>88,448</u>	<u>74,803</u>	<u>71,235</u>
Non-controlling interests		513	689	718
Total equity		<u>88,961</u>	<u>75,492</u>	<u>71,953</u>
Non-current liabilities				
Deferred tax liabilities	9	2,552	3,132	1,065
Current liabilities				
Trade and other payables	18	37,056	19,036	25,698
Other current liabilities	19	5,314	2,606	2,215
Derivative financial instruments	22	627	1,063	6,681
Current tax payable	9	2,937	3,379	2,681
Provisions for liabilities and other charges	20	—	94	1,259
		<u>45,934</u>	<u>26,178</u>	<u>38,534</u>
Total liabilities		<u>48,486</u>	<u>29,310</u>	<u>39,599</u>
Total equity and liabilities		<u>137,447</u>	<u>104,802</u>	<u>111,552</u>

These financial statements were approved and authorised by the board of directors on 26 September 2011 and were signed on its behalf by

I Resende
Director

Company statement of financial position

at 31 December 2010

	Notes	2010 \$000	2009 \$000	2008 \$000
Assets				
Non-current assets				
Intangible assets	11	1,510	1,510	1,510
Property, plant and equipment	12	12,116	11,987	12,030
Investments	13	4,487	4,487	4,487
Other non-current assets	14	4,324	3,748	2,449
		<u>22,437</u>	<u>21,732</u>	<u>20,476</u>
Current assets				
Inventories	15	43,703	30,276	34,976
Trade and other receivables	16	55,617	40,455	36,226
Derivative financial instruments	22	2,073	1,861	368
Cash and cash equivalents	17	6,452	2,938	7,160
		<u>107,845</u>	<u>75,530</u>	<u>78,730</u>
Total assets		<u>130,282</u>	<u>97,262</u>	<u>99,206</u>
Equity				
Issued share capital	24	30,698	30,698	30,698
Other reserves	25	27,745	27,174	25,937
Retained earnings		13,413	3,963	2,562
Total equity		<u>71,856</u>	<u>61,835</u>	<u>59,197</u>
Non-current liabilities				
Deferred tax liabilities	9	2,166	2,639	524
Current liabilities				
Trade and other payables	18	49,602	27,342	27,412
Other current liabilities	19	4,531	2,180	2,007
Derivative financial instruments	22	627	1,063	6,681
Current tax payable	9	1,500	2,109	2,126
Provisions for liabilities and other charges	20	—	94	1,259
		<u>56,260</u>	<u>32,788</u>	<u>39,485</u>
Total liabilities		<u>58,426</u>	<u>35,427</u>	<u>40,009</u>
Total equity and liabilities		<u>130,282</u>	<u>97,262</u>	<u>99,206</u>

These financial statements were approved and authorised by the board of directors on 26 September 2011 and were signed on its behalf by

I Resende
Director

Group statement of changes in equity

at 31 December 2010

	<i>Issued capital \$000</i>	<i>Other reserves \$000</i>	<i>Retained earnings \$000</i>	<i>Total \$000</i>	<i>Non- controlling interests \$000</i>	<i>Total equity \$000</i>
At 1 January 2009	30,698	21,691	18,846	71,235	718	71,953
Profit/(loss) for the year	–	–	2,170	2,170	(50)	2,120
Fair value movements on cash flow hedges	–	7,129	–	7,129	–	7,129
Exchange differences on translation of foreign operations	–	28	–	28	21	49
Dividends	–	–	(5,000)	(5,000)	–	(5,000)
Tax effect of other comprehensive income	–	(1,996)	–	(1,996)	–	(1,996)
Equity settled share-based payments	–	1,237	–	1,237	–	1,237
At 31 December 2009	30,698	28,089	16,016	74,803	689	75,492
At 1 January 2010	30,698	28,089	16,016	74,803	689	75,492
Profit/(loss) for the year	–	–	12,750	12,750	92	12,842
Fair value movements on cash flow hedges	–	519	–	519	–	519
Exchange differences on translation of foreign operations	–	25	–	25	(268)	(243)
Dividends	–	–	–	–	–	–
Tax effect of other comprehensive income	–	(145)	–	(145)	–	(145)
Equity settled share-based payments	–	496	–	496	–	496
At 31 December 2010	30,698	28,984	28,766	88,448	513	88,961

Group statement of cash flows

for the year ended 31 December 2010

	Notes	2010 \$000	2009 \$000
Operating activities			
Profit for the year from continuing operations		12,842	2,120
Adjustment to reconcile profit before tax to net cash flows			
Non-cash			
Depreciation	12	2,955	2,952
Share-based payment expense	23	496	1,237
Performance stock unit expense	23	91	173
Income tax expense	9	1,143	997
Provision for REACH registration costs		505	132
Minority interests		(92)	50
Provision for restructuring costs		—	60
Share of profit/(loss) from associate	13	(469)	7
Gain on disposal of property, plant and equipment		3	21
Finance expense		83	96
Pension expense	28	675	(210)
Profit from operations before working capital movements		18,232	7,635
Working capital movements			
(Increase)/decrease in inventories		(15,314)	5,863
Increase in trade and other receivables		(11,363)	(1,217)
Increase in prepayments		(543)	(2,106)
Increase in trade payables, provisions and other liabilities		20,952	69
Payment of restructuring costs	20	(94)	(1,246)
Payment of REACH registration costs		(356)	(132)
Payment of pension contributions	28	(1,261)	(1,172)
Interest paid		(495)	(89)
Interest received		18	22
Dividends paid	10	—	(5,000)
Income tax paid		(2,310)	(228)
Net cash flows from operating activities		7,466	2,399
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangibles	12	(3,387)	(2,632)
Net cash flows used in investing activities		(3,387)	(2,632)
Cash flows from financing activities			
Intergroup repayments		—	(5,000)
Net cash flows from financing activities		—	(5,000)
Effects of exchange rate change on cash and cash equivalents		(118)	(21)
Net increase/(decrease) in cash and cash equivalents		3,961	(5,254)
Cash and cash equivalents at 1 January		4,016	9,270
Cash and cash equivalents at 31 December		7,977	4,016

Notes to the financial statements

at 31 December 2010

1. Authorisation of financial statements

The group financial statements of London & Scandinavian Metallurgical Co Limited for the year ended 31 December 2010 were authorised for issue by the board of directors on 26 September 2011 and the statement of financial position for the group and the company was signed on the board's behalf by Itamar Resende

The company is a private limited company incorporated and domiciled in England and Wales. The address of the company's registered office is Fullerton Road, Rotherham, S60 1DL.

2. Accounting policies

Basis of preparation and statement of compliance

The financial statements of the group have been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union ('IFRS') on the historical cost basis and in accordance with the Companies Act 2006.

On publishing the parent undertaking financial statements here together with the group financial statements, the company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. The profit after taxation for the financial year dealt with in the financial statements of London & Scandinavian Metallurgical Co Ltd is \$9,450,000 (2009 \$6,401,000).

Transition to IFRS

The group applied IFRS 1 '*First-time Adoption of International Financial Reporting Standards*' in making the transition to IFRS, with 1 January 2009 as the date of transition to IFRS. IFRS 1 requires that all IFRS standards and interpretations that are effective for the first IFRS separate financial statements as of 31 December 2010 shall be applied consistently and retrospectively for all financial periods presented.

The group adopted IFRS after its parent undertaking, AMG Advanced Metallurgical Group N.V., who adopted IFRS as of 1 January 2005. In accordance with IFRS 1D 16, the group has elected to measure its assets and liabilities at the carrying amounts that would be included in the parent's group financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the group.

The group is taking advantage of the transition provisions of IFRS 7 44G and is not providing comparative disclosures required by the amendments to IFRS 7 – '*Improving disclosures about financial instruments*'.

An explanation of how the transition to adopt IFRS has affected the reported financial position, financial performance and cash flows of the group is provided in note 33.

Basis of consolidation

The group financial statements include the results of the company and all its subsidiary undertakings. The results of subsidiaries acquired or disposed of during the year are included in the group income statement from the date of their acquisition or up to the date of their disposal. Intra-group sales and profits are eliminated fully on consolidation.

Basis of measurement

The financial statements have been prepared under the historical cost convention.

A going concern assessment has been made by the directors with reference to the latest financial performance of the group. The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

More information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 31 Accounting estimates and judgements.

Foreign currency

These financial statements are presented in US Dollars, which is the group's functional and presentation currency and rounded to the nearest thousand dollars (\$000) except where otherwise indicated.

The determination of functional currency is based on appropriate economic and management indicators.

Transactions denominated in foreign currencies are initially translated to dollars at the rates ruling at the dates of the transactions. Profits and losses on settlements during the year are recognised in the income statement.

At the statement of financial position date, monetary assets and liabilities denominated in foreign currencies are retranslated to dollars at the rate of exchange ruling at the statement of financial position date and the resultant exchange differences are recognised in the income statement. The exchange rate as of 31 December 2010 was USD \$1 = £0.6387.

For consolidation purposes the assets and liabilities of subsidiary undertakings and joint ventures are translated at the rate of exchange ruling at the statement of financial position date. Income statements of such undertakings are translated at the average rate of exchange during the year. Exchange differences arising on the re-translation of opening net assets are taken directly to reserves. All other translation differences are taken to the income statement.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, investments in subsidiaries and associates and trade and other payables.

Trade and other receivables

Trade and other receivables are recorded at the invoiced amount. The group provides an allowance for impairment for known and estimated potential losses arising from sales to customers based on a periodic review of these financial statements. When the company is satisfied that no recovery of the amount is possible then the amount is written off against the trade receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of 90 days or less.

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

Trade and other payables

Deferred income as well as trade and other payables are accounted for at cost.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Derivative financial instruments

The group views derivative financial instruments as risk management tools and does not use them for trading or speculative purposes. The group uses forward contracts to manage certain foreign currency and commodity price exposures. Such derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purpose of hedge accounting, all hedges are classified as cash flow hedges.

At the inception of a cash flow hedge relationship, the company formally designates and documents the hedge relationship to which the company wishes to apply hedge accounting and the risk management objective and strategy for the purpose of the hedge. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the company will assess the hedge effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while any ineffective portion is recognised immediately in the income statement. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement.

Investments

Investments held as non-current assets are stated at cost unless there is a permanent diminution in value, in which case they are stated at the net realisable value.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired,
- the group retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement, or
- the group retains the right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the asset.

When the group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to pay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Property plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged in the income statement on a straight-line basis over the estimated lives of each part of an item of property, plant and equipment. Land and construction in progress are not depreciated.

If there is a permanent diminution in value, the item is written down to its estimated recoverable amount.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

The annual rates used are

Freehold land	–	nil
Freehold buildings	–	4%
Plant and machinery	–	10%
Laboratory equipment	–	20%
Motor vehicles	–	25%
Computer equipment	–	33%

Leases

Rentals under operating leases are charged to the income statement on a straight line basis over the lease term. There were no lease arrangements classified as finance leases as of 31 December 2010 (2009 – none).

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost comprises direct material and labour costs together with the relevant overheads on the basis of normal activity levels. Allowance is made for obsolete, slow moving or defective items where appropriate.

Stocks held under consignment arrangements are reviewed regularly in order to assess whether the substance of the arrangements is such that those stocks constitute assets which should be reflected in the group statement of financial position.

Impairment excluding inventories and deferred tax assets

The carrying amounts of the group's assets are reviewed at each statement of financial position date. To determine whether there is any indication of impairment, a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by a valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions). No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous statement of financial position date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model. Fair value is established initially at the grant date and at each statement of financial position date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the statement of financial position date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the statement of financial position date. Changes in the carrying amount for the liability are recognised in the income statement for the period.

Employee benefits

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plan

The company and its subsidiary, The Aluminium Powder Company Limited, participate in the LSM 2006 Pension Plan ('2006 pension plan') which includes a defined benefit arrangement. The defined benefit arrangement closed on the 31 May 2006 to all members.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Employee benefits (continued)

The group's obligation in respect of defined pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service to the date of the scheme closure. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted to arrive at the net pension obligation or asset. The discount rate used is the yield at the statement of financial position date on AA credit rated bonds that have maturity dates approximating the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. The net obligation or asset recognised in the statement of financial position is the present value of the defined benefit obligation less the fair value of the plan assets.

The income statement charge is allocated between an operating charge and net finance expense or income. The operating charge reflects the service cost which is spread systematically over the working lives of the employees. The net finance charge reflects the unwinding of the discount applied to the liabilities of the plan, offset by the expected return on the assets of the plan, based on conditions prevailing at the start of the year.

The corridor approach is used for actuarial gains and losses that arise in calculating the company's pension obligations. To the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of the plan assets that portion is recognised in the statement of comprehensive income. Otherwise the actuarial gain or loss is not recognised.

Actuarial valuations are carried out by an independent actuary as determined by the Trustees at intervals of not more than three years, to determine the rates of contribution payable. The pension cost is determined on the advice of the group's actuary, having regard to the results of these Trustee valuations. In any intervening years, the actuaries review the continuing appropriateness of the contributions rates.

Provisions

A provision is recognised in the statement of financial position when

- the group has a present legal or constructive obligation as a result of a past event that can be reliably measured, and
- it is probable that an outflow of economic benefits will be required to settle the obligation.

Revenue

Revenue is recognised upon transfer of the risks and rewards of ownership, and in accordance with terms of shipment. Revenue represents amounts invoiced to customers excluding discounts, rebates, VAT and other sales taxes or duty. Where consignment stock arrangements are in place, revenue is recognised upon withdrawal from consignment by the customer or, where relevant, on expiry of a fixed contractual term.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement when incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the company intends, has the technical ability and has sufficient resources to complete development, future economic benefits are probable and if the company can measure reliably the expenditure attributable to the intangible asset during its development. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it is earned, using the effective interest method.

Finance expenses comprise interest expense on borrowings. All borrowings costs are recognised in the income statement in the year in which they are incurred, except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Such costs are capitalised as part of the cost of that asset, when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably.

Income tax expense

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the statement of financial position date and any adjustment to tax payable in respect of previous periods.

Deferred taxation

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- The initial recognition of goodwill,
- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and
- Differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Income tax expense (continued)

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- Receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

New and amended standards

The company applied all standards and interpretations issued by the IASB and the IFRIC for preparation of separate financial statements if their application was required in the European Union for financial years commencing 1 January 2010. The following new and amended IFRS and IFRIC interpretations are mandatory as of 1 January 2010 unless otherwise stated and the impact is described below.

Amendment to IFRS2 Group Cash-settled Share-based Payment Arrangements

The amendment clarifies the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. This amendment did not have any impact on the financial position or performance of the group.

IFRS 3 (revised) Business Combinations

The revised standard increases the number of transactions to which it must be applied including business combinations of mutual entities and combinations without consideration. IFRS 3 (revised) introduces significant changes in the accounting for business combination such as valuation of non-controlling interest, business combination achieved in stages, the initial recognition and subsequent measurement of a contingent consideration and the accounting for transaction costs. These changes will have a significant impact on profit or loss reported in the period of an acquisition, the amount of goodwill recognised in a business combination and profit or loss reported in future periods. There were no business combinations in the year.

IAS 27 (amended) Consolidated and Separate Financial Statements

The amended standard requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners and these transactions will no longer give rise to goodwill or gains and losses. The standard also specifies the accounting when control is lost and any retained interest is remeasured to fair value with gains or losses recognised in profit or loss. The group has concluded that the amendment did not have any impact on the financial position or performance of the group.

Amendment to IAS 39 Financial Instruments – Recognition and Measurement – Eligible hedged items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The group has concluded that the amendment did not have any impact on the financial position or performance of the group, as the group has not entered into any such hedges.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

New and amended standards (continued)

IFRIC 12 Service Concession Arrangements

The interpretation addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and the rights they receive in service concession arrangements. As the group does not have any service concession arrangements, the interpretation has no impact.

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 clarifies the need for careful analysis of the terms and conditions of real estate agreements which involve construction activities. In certain cases it will separate components, e.g. sale of land and a construction component, to determine the appropriate method of revenue recognition. This interpretation has no impact on the group as it does not enter into contracts for the construction of real estate.

IFRIC 17 Distribution of Non-cash Assets to Owners

The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The adoption of the interpretation did not have an impact on the group.

IFRIC 18 Transfers of Assets from Customers

The interpretation applies to entities that receive from customers items of property, plant and equipment or cash for the acquisition of construction of such items. These assets are then used to connect customers to a network or to provide on-going access to a supply of goods or services. As the group does not enter into such transactions this interpretation has no impact on the group.

Improvements to IFRSs (issued 2009)

In May 2009 the Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each amendment. The adoption of the amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the group.

Standards and interpretations issued but not yet applied

The following standards and interpretations have an effective date after the date of these financial statements but the group has not early adopted them.

IAS 24 Related Party Disclosures (Amendment) (effective 1 January 2011)

The amended standard clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The group does not expect any impact on its financial position or performance.

IAS 32 Financial Instruments Presentation – Classification of Rights Issues (Amendment) (effective 1 February 2010)

The amendment to IAS 32 amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the group after initial application.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Standards and interpretations issued but not yet applied (continued)

IFRS 9 Financial Instruments Classification and measurement (effective 1 January 2013)

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project has been postponed until 2015. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the group.

IFRIC 19 Extinguishing financial liabilities with equity instruments (effective 1 July 2010)

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the group.

Improvements to IFRS (issued in May 2010)

The group expects no impact from the adoption of the amendments on its financial position or performance.

Fair value measurement

On 13 May 2011 the IASB issued IFRS 13 Fair Value Measurement. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

IFRS 10 Consolidated Financial Statements

On 13 May 2011 the IASB issued IFRS 10. This requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities.

The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). The group has concluded that the amendment did not have any impact on the financial position or performance of the group.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Standards and interpretations issued but not yet applied (continued)

IFRS 11 Joint Arrangements

On 13 May 2011 the IASB issued IFRS 11 This replaces IAS 31 Interests in Joint Ventures The standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement

Joint arrangements are either joint operations or joint ventures

- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly)
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 Investments in Associates and Joint Ventures (2011) Unlike IAS 31, the use of 'proportionate consolidation' to account for joint ventures is not permitted

The group has concluded that the amendment did not have any impact on the financial position or performance of the group

IFRS 12 Disclosure of Interests in Other Entities

On 13 May 2011 the IASB issued IFRS 12 This standard requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows

In high-level terms, the required disclosures are grouped into the following broad categories

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

Effective dates

The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations As the group prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU endorsement mechanism In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the group's discretion to early adopt standards

Notes to the financial statements

at 31 December 2010

3. Revenue

	2010	2009
	\$000	\$000
United Kingdom	31,219	21,561
Rest of Europe	96,767	62,359
Rest of the World	127,808	74,546
	<u>255,794</u>	<u>158,466</u>

4. Operating profit

Operating profit is stated after charging/(crediting)

	2010	2009
	\$000	\$000
Depreciation of tangible fixed assets – owned assets	2,955	2,952
Loss on disposal of tangible assets	3	21
Research and development expensed as incurred	51	30
Rentals under operating leases – other	193	243
Foreign exchange gains	<u>(53)</u>	<u>(1,734)</u>

5. Auditors' remuneration

	2010	2009
	\$000	\$000
Audit of these financial statements	191	154
Other services	<u>–</u>	<u>31</u>

Audit fees relating to the parent company were \$157,000 (2009 – \$123,000)

Notes to the financial statements

at 31 December 2010

6. Directors' remuneration

	2010	2009
	\$000	\$000
Directors' remuneration	1,996	1,184
Company contributions to defined contribution scheme	110	81
Compensation for loss of office	—	139

There are no retirement benefits accruing to directors under defined benefit schemes (2009 – none)

There are six directors accruing benefits under a defined contribution scheme (2009 – six)

E E Jackson and W J Levy received no remuneration from the company. Details concerning the remuneration of these directors can be found in the consolidated accounts of AMG Advanced Metallurgical Group N V which are publically available.

The amounts paid in respect of the highest paid director were as follows

	2010	2009
	\$000	\$000
Aggregate remuneration	1,008	604
Company contributions to defined contribution scheme	47	34

7. Employee information

	2010	2009
	\$000	\$000
Wages and salaries	20,523	17,693
Social security costs	1,641	1,458
Pension cost - defined contribution scheme	1,249	1,229
Pension cost/(credit) - defined benefit scheme	670	(212)
	24,083	20,168

The average monthly number of persons employed by the group (including directors) during the year, analysed by category, was as follows

	2010	2009
	Number	Number
Production	263	222
Sales and administration	47	42
	310	264

Notes to the financial statements

at 31 December 2010

8. Finance income and expenses

Recognised in the income statement

	2010 \$000	2009 \$000
Finance income		
Bank interest received	18	22
Expected return on pension scheme assets	5,369	5,530
Total finance income	5,387	5,552
Finance expenses		
Bank loans and overdraft	101	90
Interest on pension scheme liabilities	5,292	4,790
Interest payable to affiliated companies	—	28
Total finance expenses	5,393	4,908
Total finance expenses/(income)	6	(644)

9. Income tax expense

	2010 \$000	2009 \$000
Current tax:		
Current period	4,196	1,230
Adjustment for prior periods	(2,473)	(304)
Total current tax	1,723	926
Deferred tax		
Current period	(190)	71
Adjustment for prior periods and rate changes on opening balances	(390)	—
Total deferred tax	(580)	71
Income tax expense	1,143	997

Notes to the financial statements

at 31 December 2010

9. Income tax expense (continued)

Reconciliation of the total tax charge

The tax expense in the income statement for the year differs from the standard rate of corporation tax in the UK at 28% (2009 – 28%). The differences are reconciled below

	2010 \$000	2009 \$000
Profit before income tax	13,985	3,117
Income tax using the standard rate of corporation tax in the UK of 28% (2009 – 28%)	3,916	1,096
<i>Effects of</i>		
Expenses not deductible for tax purposes	160	142
Adjustments to tax in respect of prior periods		
– current tax	(2,473)	(304)
– deferred tax	(288)	–
Group relief claimed not paid	(22)	–
Adjustments in respect of foreign tax rates	(58)	63
Rate adjustment for deferred tax	(92)	–
Total income tax expenses (effective rate 8% , 2009 – 32%)	1,143	997

Current tax relates to the prior year UK corporation tax credit to the income statement

Group

	31 December 2010 \$000	31 December 2009 \$000
Corporation tax payable	2,937	3,379

Company

	31 December 2010 \$000	31 December 2009 \$000
Corporation tax payable	1,500	2,109

Deferred tax assets and liabilities

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as tax loss and tax credit carry forwards

Notes to the financial statements

at 31 December 2010

9. Income tax expense (continued)

Deferred tax assets are recognised to the extent it is probable that the temporary differences, unused tax losses and unused tax credits will be realised. The realisation of deferred tax assets is reviewed each reporting period and includes the consideration of historical operating results, projected future taxable income exclusive of reversing temporary differences and carry-forwards, the scheduled reversal of deferred tax liabilities and potential tax planning strategies.

	<i>Deferred taxation \$000</i>
At 1 January 2010	3,132
Credit to income statement	(580)
At 31 December 2010	<u>2,552</u>

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities have been recognised in respect of the following items

Group

	Statement of financial position					Income statement
	Assets		Liabilities			
	31 December 2010	31 December 2009	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	\$000	\$000	\$000	\$000	\$000	\$000
Plant and machinery	–	–	339	601	(262)	(151)
Property – buildings	–	–	1,014	1,213	(199)	(143)
Financial assets	–	–	17	207	(190)	(21)
Provisions	48	–	–	–	(48)	–
Pension asset	–	–	1,230	1,111	119	386
Net tax assets and liabilities	<u>48</u>	<u>–</u>	<u>2,600</u>	<u>3,132</u>	<u>(580)</u>	<u>71</u>

Notes to the financial statements

at 31 December 2010

9. Income tax expense (continued)

Recognised deferred tax assets and liabilities (continued)

Company

	Statement of financial position					Income statement
	Assets		Liabilities			
	31 December 2010	31 December 2009	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	\$000	\$000	\$000	\$000	\$000	\$000
Plant and machinery	—	—	225	398	(173)	(85)
Property – buildings	—	—	805	985	(180)	(138)
Financial assets	—	—	17	207	(190)	(21)
Provisions	48	—	—	—	(48)	—
Pension asset	—	—	1,167	1,049	118	363
Net tax assets and liabilities	48	—	2,214	2,639	(473)	119

Unrecognised deferred tax assets and liabilities

There are no unrecognised deferred tax assets and liabilities

Effect of changes of tax rate enacted in Finance Act 2011

In addition to the changes in rates of Corporation tax disclosed within the note on taxation, a number of further changes to the UK Corporation tax system were announced in the March 2011 UK Budget statement. A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 was included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. None of these rate reductions had been substantively enacted at the statement of financial position date and, therefore, are not included in these financial statements.

The effect of the changes enacted by Parliament on 29 March 2011 is to reduce the deferred tax liability provided at the statement of financial position date by \$94,511 (company \$80,230). This decrease in the deferred tax liability is due to the additional reduction in the corporation tax rate to 26% with effect from 1 April 2011.

The effect of the changes enacted in the Finance Act 2011 would be to reduce the deferred tax liability provided at the statement of financial position date by an additional \$94,511 (company \$80,230). This decrease in the deferred tax liability is due to the reduction in the corporation tax rate from 26% to 25% with effect from 1 April 2012.

The proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 25% to 23%, if these applied to the deferred tax balance at the statement of financial position date, would be to further reduce the deferred tax liability by an additional \$189,022 (company \$160,460). This being \$94,511 (company \$80,230) recognised in 2013 and \$94,511 (company \$80,230) recognised in 2014.

Notes to the financial statements

at 31 December 2010

10. Dividends

No dividends were paid during the year on equity shares (2009 - \$5,000,000)

11. Intangible fixed assets

Group and Company

	<i>Purchased goodwill \$000</i>	<i>Total \$000</i>
Cost and net book value at 1 January 2009, 31 December 2009 and 31 December 2010	<u>1,510</u>	<u>1,510</u>

12. Property, plant and equipment

Group

	<i>Land and buildings \$000</i>	<i>Plant, equipment and vehicles \$000</i>	<i>Total \$000</i>
Cost			
At 1 January 2009	18,373	67,493	85,866
Additions	169	2,463	2,632
Exchange rate movements	28	66	94
Retirements and transfers	—	(895)	(895)
At 31 December 2009	18,570	69,127	87,697
Additions	6	3,381	3,387
Exchange rate movements	(26)	(36)	(62)
Retirements and transfers	(79)	(910)	(989)
At 31 December 2010	<u>18,471</u>	<u>71,562</u>	<u>90,033</u>
Depreciation			
At 1 January 2009	11,425	58,106	69,531
Depreciation	390	2,562	2,952
Exchange rate adjustments	29	46	75
Retirements and transfers	—	(865)	(865)
At 31 December 2009	11,844	59,849	71,693
Depreciation	358	2,597	2,955
Exchange rate adjustments	(23)	(31)	(54)
Retirements and transfers	(79)	(895)	(974)
At 31 December 2010	<u>12,100</u>	<u>61,520</u>	<u>73,620</u>
Carrying amounts			
At 1 January 2009	6,948	9,387	16,335
At 31 December 2009 and 1 January 2010	6,726	9,278	16,004
At 31 December 2010	<u>6,371</u>	<u>10,042</u>	<u>16,413</u>

The group did not have any borrowing costs to capitalise during the year ended 31 December 2010 (2009 – \$nil)

Notes to the financial statements

at 31 December 2010

12. Property, plant and equipment (continued)

Company

	<i>Land and buildings \$000</i>	<i>Plant, equipment and vehicles \$000</i>	<i>Total \$000</i>
Cost			
At 1 January 2009	13,949	54,284	68,233
Additions	169	1,952	2,121
Retirements and transfers	—	(895)	(895)
At 31 December 2009	14,118	55,341	69,459
Additions	6	2,242	2,248
Retirements and transfers	(79)	(784)	(863)
At 31 December 2010	14,045	56,799	70,844
Depreciation			
At 1 January 2009	8,556	47,647	56,203
Depreciation	260	1,874	2,134
Retirements and transfers	—	(865)	(865)
At 31 December 2009	8,816	48,656	57,472
Depreciation	264	1,853	2,117
Retirements and transfers	(79)	(782)	(861)
At 31 December 2010	9,001	49,727	58,728
Carrying amounts			
At 1 January 2009	5,393	6,638	12,030
At 31 December 2009 and 1 January 2010	5,302	6,686	11,987
At 31 December 2010	5,044	7,072	12,116

Securities

As at 31 December 2010, the group's land and buildings have been pledged against financing loans and a revolving credit facility taken out by AMG Advanced Metallurgical Group N V, the group's ultimate parent undertaking. Please also refer to note 27.

Notes to the financial statements

at 31 December 2010

13. Investments

Group

	<i>Associate \$000</i>	<i>Total \$000</i>
At 1 January 2009	1,977	1,977
Share of retained loss for the year	(7)	(7)
At 1 January 2010	1,970	1,970
Share of retained profit for the year	469	469
At 31 December 2010	<u>2,439</u>	<u>2,439</u>

Company

	<i>Associate undertakings \$000</i>	<i>Group \$000</i>	<i>Total \$000</i>
Cost and net book value			
At 1 January 2009, 31 December 2009 and 31 December 2010	<u>1,268</u>	<u>3,219</u>	<u>4,487</u>

Details of the investments in which the group and the company hold 20% or more nominal value of any class of share capital are as follows

Name	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held by	
			Group %	Company %
Subsidiary undertakings				
The Aluminium Powder				
Company Limited	England and Wales	Ordinary shares	100	100
Benda-Lutz-Alpoco Sp zo o *	Poland	Ordinary shares	51	-
LSM (Jiaxing) Co , Limited	China	Ordinary shares	100	100

* held by The Aluminium Powder Company Limited

Associate				
Bostlan SA	Spain	Ordinary shares	25	25

The Aluminium Powder Company Limited is involved in manufacturing aluminium powder and aluminium alloy powders, together with the provision of expertise in this field Benda-Lutz-Alpoco Sp zo o is involved in manufacturing aluminium powder Bostlan SA is involved in manufacturing and trading aluminium tablets LSM (Jiaxing) Co , Limited is involved in the manufacturing of the metallurgical products

Notes to the financial statements

at 31 December 2010

13. Investments (continued)

Summary financial information for the associate, Bostlan SA, adjusted for the percentage ownership held by the group, is shown below

	2010 \$000	2009 \$000
Total assets	8,004	5,662
Total liabilities	(5,883)	(3,224)
Net assets	2,121	2,438
Revenues	12,141	6,988
Recognised profit or (loss)	469	(7)

14. Other non-current assets

	Group		Company	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Pension prepayment	4,555	3,969	4,324	3,748

For details regarding the underlying pension scheme and the calculation of the pension prepayment, please refer to note 28

15. Inventories

	Group		Company	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Raw materials	21,627	14,248	20,029	13,972
Finished goods and work in progress	23,298	17,109	19,062	13,488
Merchanting inventory	4,612	2,866	4,612	2,816
Total inventories	49,537	34,223	43,703	30,276

Cost of raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to \$193,507,000 (2009 – \$116,561,000)

The write down of inventories to net realisable value amounted to \$160,000 (2009 – \$1,495,000 credit) and the provision charged for slow-moving inventories amounted to \$213,000 credit (2009 – \$371,000)

Notes to the financial statements

at 31 December 2010

16. Trade and other receivables

	2010	Group 2009	2010	Company 2009
	\$000	\$000	\$000	\$000
Trade receivables	32,033	23,820	28,284	20,839
Receivables from affiliates	18,234	15,084	24,967	17,775
Prepayments	550	654	481	574
Other receivables	598	1,121	357	697
Prepaid inventory	1,528	570	1,528	570
Total trade and other receivables	52,943	41,249	55,617	40,455

The carrying amount of trade receivables approximates their fair value. Trade receivables are non-interest bearing and are generally on 30 to 90 days terms.

All amounts within trade and other receivable are expected to be recovered within 12 months.

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

Group

	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
	\$000	\$000	\$000	\$000
Current – not yet due	25,739	20	19,253	–
0 – 30 days	5,859	25	4,396	–
31 – 60 days	527	3	205	–
61 – 90 days	17	6	98	2
More than 90 days	(25)	30	(83)	47
	32,117	84	23,869	49

Company

	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
	\$000	\$000	\$000	\$000
Current – not yet due	22,717	20	16,385	–
0 – 30 days	5,136	25	4,229	–
31 – 60 days	517	3	200	–
61 – 90 days	17	6	78	2
More than 90 days	(19)	30	(4)	47
	28,368	84	20,839	49

Notes to the financial statements

at 31 December 2010

17. Cash and cash equivalents

	<i>Group</i>		<i>Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Cash at bank and in hand	7,977	4,016	6,452	2,938

18. Trade and other payables

	<i>Group</i>		<i>Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Trade payables	34,500	16,570	32,511	15,204
Payables to affiliates	2,556	2,466	17,091	12,138
Total trade and other payables	37,056	19,036	49,602	27,342

Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms

For related party transactions refer to note 29

19. Other current liabilities

	<i>Group</i>		<i>Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Accruals and deferred income	4,598	1,903	3,815	1,477
Cash-settled share-based payment accrual	200	173	200	173
Social security and taxes other than income	516	530	516	530
Total other liabilities	5,314	2,606	4,531	2,180

Notes to the financial statements

at 31 December 2010

20. Provisions for liabilities

Group and Company

	2010 \$000	2009 \$000
Provision for onerous lease	—	94
Total provision	—	94

	2010 \$000
At 1 January 2010	94
Charged to the provision	(94)
At 31 December 2010	—

The provision represented costs associated with an onerous lease from an operation that was shut down during 2008

21. Obligations under operating leases

At 31 December 2010 the group was committed to making payments totalling \$38,000 (2009 – \$39,000) during the next year in respect of operating leases of land and buildings which expire within one year

22. Financial instruments

The group and the company enter into derivative financial instruments to manage the group's currency and commodity price exposure. Other financial instruments including trade receivables and payables arise directly from the group's operations

Trade and other receivables

The directors believe that the fair value of trade and other receivables approximates to their carrying value. The present value of future cash flows are not discounted as the effect is not material.

Trade and other payables

The directors believe that the fair value of trade and other payables approximates to their carrying value. The present value of future cash flows are not discounted as the effect is not material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated at its carrying value where the cash is repayable on demand.

Derivative financial instruments

Derivative currency and commodity contracts are based on quoted forward exchange rates and commodity prices respectively.

Notes to the financial statements

at 31 December 2010

22. Financial instruments (continued)

Financial instruments by category

Set out below is an analysis by category of the carrying amounts and fair values of all of the group's financial instruments

		<i>Carrying value 2010 \$000</i>	<i>Fair value 2010 \$000</i>	<i>Carrying amount 2009 \$000</i>	<i>Fair value 2009 \$000</i>
Group	<i>Note</i>				
Current financial asset					
Trade and other receivables	16	52,943	52,943	41,249	41,249
Cash and cash equivalents	17	7,977	7,977	4,016	4,016
Derivative financial instruments	22	2,073	2,073	1,861	1,861
Total financial assets		62,993	62,993	47,126	47,126
Current financial liabilities					
Trade and other payables	18	(37,056)	(37,056)	(19,036)	(19,036)
Derivative financial instruments	22	(627)	(627)	(1,063)	(1,063)
Total financial liabilities		(37,683)	(37,683)	(20,099)	(20,099)
Company					
Current financial asset					
Trade and other receivables	16	55,617	55,617	40,524	40,524
Cash and cash equivalents	17	6,452	6,452	2,938	2,938
Derivative financial instruments	22	2,073	2,073	1,861	1,861
Total financial assets		64,142	64,142	45,323	45,323
Current financial liabilities					
Trade and other payables	18	(49,602)	(49,602)	(27,411)	(27,411)
Derivative financial instruments	22	(627)	(627)	(1,063)	(1,063)
Total financial liabilities		(50,229)	(50,229)	(28,474)	(28,474)

Notes to the financial statements

at 31 December 2010

22. Financial instruments (continued)

Valuation of financial instruments - Fair value hierarchy

As at 31 December the company used the following hierarchy for determining and disclosing the fair value of financial instruments by valuation methodology

- Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities,
- Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and
- Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The analysis of the financial instruments into the fair value hierarchy is analysed as follows

	2010 \$000	Level 1 \$000	Level 2 \$000	Level 3 \$000
Financial assets				
Forward contracts – hedged	2,073	–	2,073	–
Financial liabilities				
Forward contracts – hedged	627	–	627	–
	2009 \$000	Level 1 \$000	Level 2 \$000	Level 3 \$000
Financial assets				
Forward contracts – hedged	1,861	–	1,861	–
Financial liabilities				
Forward contracts – hedged	1,063	–	1,063	–

During the years ended 31 December 2010, and 2009, there were no transfers between level 1, level 2 and level 3 fair value measurements

Notes to the financial statements

at 31 December 2010

22. Financial instruments (continued)

Hedging activities

Commodity forward contracts

The group is exposed to volatility in the prices of raw materials used in some products and uses commodity forward contracts to minimise these exposures. Such contracts generally mature within 12 months. Commodity forward contracts have been designated as cash flow hedges.

The open commodity forward contracts as at December 2010 are as follows

	<i>Metric tonnes</i>	<i>Average price per tonne \$</i>	<i>Fair value \$000</i>
<i>US dollar denominated contracts to purchase commodities</i>			
Aluminium forwards	4,625	2,325	638
<i>US dollar denominated contracts to sell commodities</i>			
Aluminium forwards	1,075	2,351	(119)

The open commodity forward contracts as at December 2009 are as follows

	<i>Metric tonnes</i>	<i>Average price per tonne \$</i>	<i>Fair value \$000</i>
<i>US dollar denominated contracts to purchase commodities</i>			
Aluminium forwards	4,050	1,904	1,327
Copper forwards	125	6,106	160
<i>US dollar denominated contracts to sell commodities</i>			
Aluminium forwards	925	2,108	(43)
Copper forwards	25	6,982	(12)

There was no hedging ineffectiveness at the consolidated level during the years ended 31 December 2010 or 2009.

Hedging ineffectiveness at company level

The company hedges its own exposure and that of its subsidiary, The Aluminium Powder Company Limited ('Alpoco'). For group reporting into the financial statements of AMG Advanced Metallurgical Group N.V., the hedging documentation prepared was sufficient for the group to account for these forward contracts as cash flow hedges. However, for the individual financial statements of the company and Alpoco this documentation was deemed insufficient in order for the hedges to be deemed effective. Documentation which would have rendered the hedges to be effective was in place from July 2010.

Notes to the financial statements

at 31 December 2010

22. Financial instruments (continued)

Hedging activities

Commodity forward contracts

As a result of the differing accounting treatment between the group and company, the amount of commodity cash flow hedges included in other comprehensive income at the year end for the group and company was as follows

	<i>Group</i>		<i>Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Commodity cash flow hedges	519	1,432	349	—
Tax effect of commodity cash flow hedges	(145)	(401)	(98)	—
Other comprehensive income	374	1,031	251	—

The charge or (credit) to the income statement as cost of sales for the year relating to commodity cash flow hedges for the group and company was as follows

	<i>Group</i>		<i>Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Commodity cash flow hedges	(612)	2,525	(782)	1,093

Foreign currency forward contracts

The group uses foreign exchange forward contracts to hedge a significant portion of its estimated foreign currency exposure in respect of forecasted sales and purchases that will be received or paid in different foreign currencies. These contracts are negotiated to match the terms of the commitments and generally mature within 18 months. Foreign exchange forward contracts have been designated as cash flow hedges.

The open foreign exchange forward sales contracts as at 31 December are as follows

<i>Exposure</i>	<i>Notional amount</i>	<i>Contract rate</i>	<i>Fair value assets</i>	<i>Fair value liabilities</i>
<i>Cash flow hedges</i>				
Euro (versus USD) – 2010	€20.3 million	1.359	573	(206)
Euro (versus USD) – 2009	€17.4 million	1.440	272	(162)
GBP (versus USD) – 2009	£1.5 million	1.663	102	—

Notes to the financial statements

at 31 December 2010

22. Financial instruments (continued)

Foreign currency forward contracts (continued)

The open foreign exchange forward purchase contracts as at 31 December are as follows

<i>Exposure</i>	<i>Notional amount</i>	<i>Contract rate</i>	<i>Fair value assets</i>	<i>Fair value liabilities</i>
<i>Cash flow hedges</i>				
GBP (versus USD) – 2010	£22 million	1 538	862	(303)
GBP (versus USD) – 2009	£16 8 million	1 646	–	(845)

There was no ineffectiveness at the group level during the year ended 31 December 2010 or 2009

Hedging ineffectiveness at company level

As with the commodity forward contracts, there was also a differing accounting treatment between the group and company in relation to the recognition and treatment of foreign currency cash flow hedges

The amount of commodity cash flow hedges included in other comprehensive income at the year end for the group and company was as follows

	<i>Group</i>		<i>Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Currency cash flow hedges	726	(706)	(245)	–
Tax effect of commodity cash flow hedges	(203)	198	69	–
Other comprehensive income	523	(508)	(176)	–

The charge or (credit) to the income statement as cost of sales for the year relating to commodity cash flow hedges for the group and company was as follows

	<i>Group</i>		<i>Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Currency cash flow hedges	(45)	1,840	(1,016)	2,546

Total hedging activities

The total amount recognised as other comprehensive income in relation to cash flow hedges for the group and company is as follows

	<i>Group</i>		<i>Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Commodity cash flow hedges	374	1,031	251	–
Currency cash flow hedges	523	(508)	(176)	–
Total other comprehensive income relating to cash flow hedges	897	523	75	–

Notes to the financial statements

at 31 December 2010

23. Share-based payments

Equity-settled share-based payments

On June 26, 2007, the Management Board of AMG Advanced Metallurgical N V, the parent company of London & Scandinavian Metallurgical Co Limited, established the AMG Option Plan (the 'Plan'). The plan is eligible to senior management of the company.

Each option issued under the plan entitles the holder to acquire shares at a future date at a price equal to the fair market value of the share at the date on which the option was granted. One quarter of the options granted to each option holder on any date will vest on each of the first four anniversaries of the grant date. This vesting is not subject to any performance conditions. The options expire on the tenth anniversary of their grant date.

All options under the Plan are equity settled, in accordance with IFRS 2, by award of options to acquire ordinary shares or award of ordinary shares. The expense recognised for share-based payments in respect of employee services during the year to 31 December 2010 is \$496,000 (2009 – \$1,237,000).

The following table illustrates the number and weighted average prices (WAEP) of movements in share options during the year.

	2010 No	2010 WAEP	2009 No	2009 WAEP
Outstanding at 1 January	140,000	EUR 33.39	140,000	EUR 33.39
Granted during the year	–	–	–	–
Forfeited during the year	–	–	–	–
Outstanding at 31 December	140,000	EUR 33.39	140,000	EUR 33.39
Exercisable at 31 December	50,000	EUR 31.74	50,000	EUR 30.58

The following table lists the inputs into the binomial model used to calculate the fair value of the share-based payment options.

	2010	2009
Exercise price	EUR 24 – 40.50	EUR 24 – 40.50
Share price at date of grant	EUR 24 – 40.50	EUR 29 – 40.50
Contractual life (years)	10	10
Dividend yield	Nil	Nil
Expected volatility (%)	79.12%	79.12%
Risk-free interest rate (%)	1.33%	1.33%
Expected life of option (years)	2	3
Weighted average share price (€)	EUR 38.16	EUR 38.16
Expected departures (%)	4.0%	4.0%

The expected volatility was calculated using the average historical share volatility of parent company's peers (over a period equal to our expected term). The expected volatility reflects the assumption that the calculated volatility of parent company's peers would be indicative of future trends, which may not be the actual outcome. The expected life is the time at which options are expected to vest, however this also may not be indicative of exercise patterns that may occur. The options vest in four equal tranches on the first, second, third and fourth anniversaries of the grant date, and therefore continued employment is a non-market condition for options to vest. The risk free rate of return is the yield on zero coupon three and five-year Dutch government bonds.

Notes to the financial statements

at 31 December 2010

23. Share-based payments (continued)

Cash-settled share-based payments

In May 2009, the Annual General Meeting of shareholders' of AMG Advanced Metallurgical N V, the ultimate parent company of London & Scandinavian Metallurgical Co Limited approved implemented, a performance share unit plan ('PSUP') for certain members of the company management. Under the PSUP, the individual receives an award of an approved value of performance share units ('PSUs'). The issue price of each PSU is equal to the weighted average share price at which common shares of the parent company trade on the Euronext Amsterdam Stock Exchange during the 10 day period subsequent to the annual earnings release. The PSUs vest after three years, except in the first two years where transitional vesting provisions are in place. The vesting is subject to certain return on capital employed ('ROCE') performance requirements. The value of the PSUs, when converted to cash, will be equivalent to the market value of the common shares at the time the conversion takes place.

The parent company

Cash-settled share-based payments

AMG Advanced Metallurgical Group N V issued 24,061 performance share units ('PSUs') to certain employees which are cash-settled. The fair value at issuance for these units ranged from €3.21 to €3.88, depending on the vesting term. The company has recorded a liability of \$200,000 as of 31 December 2010 (2009 – \$173,000). Fair value is determined using the binomial method using the assumptions noted in the 2010 plan table below. The company recorded an expense of \$110,000 in the year ended 31 December 2010 (2009 – \$173,000). The intrinsic value of the PSUs was €8.84 as at 31 December 2010.

Assumptions used:

	2010	2009
Contractual life (years)	2	3
Dividend yield	Nil	Nil
Expected volatility (%)	36.10% – 88.41%	79.12%
Risk-free interest rate (%)	0.29% – 0.85%	0.85% – 1.65%
Expected life of option (years)	2	3
Weighted average share price (€)	EUR 7.28 – EUR 8.81	EUR 6.96
Expected departures (%)	10.0%	10.0%

24. Issued share capital

	2010	2009
	\$000	\$000
<i>Called up, allotted and fully paid equity shares</i>		
16,000,000 Ordinary shares of £1 each	30,698	30,698

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share.

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at 31 December 2010

25. Movements on reserves

Group

	Capital reserve \$000	Share-based payment reserve \$000	Foreign currency translation reserve \$000	Accumulated other comprehensive income \$000	Total other reserves \$000
At 1 January 2009	25,000	937	364	(4,610)	21,691
Foreign currency translation	–	–	28	–	28
Fair value movements on derivative financial instruments	–	–	–	7,129	7,129
Tax effect of fair value movements	–	–	–	(1,996)	(1,996)
Credit to share-based payment reserve	–	1,237	–	–	1,237
At 1 January 2010	25,000	2,174	392	523	28,089
Foreign currency translation	–	–	25	–	25
Fair value movements on derivative financial instruments	–	–	–	519	519
Tax effect of fair value movements	–	–	–	(145)	(145)
Credit to share-based payment reserve	–	496	–	–	496
At 31 December 2010	25,000	2,670	417	897	28,984

Company

	Capital reserve \$000	Share- based payment reserve \$000	Accumulated other comprehensive income \$000	Total other reserves \$000
At 1 January 2009	25,000	937	–	25,937
Fair value movements on derivative financial instruments	–	–	–	–
Credit to share-based payment reserve	–	1,237	–	1,237
At 1 January 2010	25,000	2,174	–	27,174
Fair value movements on derivative financial instruments	–	–	104	104
Tax effect of fair value movements	–	–	(29)	(29)
Credit to share-based payment reserve	–	496	–	496
At 31 December 2010	25,000	2,670	75	27,745

Notes to the financial statements

at 31 December 2010

25. Movements on reserves (continued)

Capital reserve

The capital reserve represents a capital contribution from the ultimate parent company which occurred as part of a group re-financing process. This reserve is non-distributable.

Share-based payment reserve

The share based payment reserves comprises amounts recognised in respect of employee services in relation to the AMG Option Plan, as disclosed in note 23.

Foreign currency translation reserve

The foreign currency translation reserve comprises exchange difference resulting from the translation of the group's foreign operations.

Accumulated other comprehensive income reserve

The accumulated other comprehensive income reserve represents the effective portion of gains or losses on cash flow hedges that are yet to mature, net of deferred tax.

26. Capital commitments

There were \$725,000 of capital commitments at 31 December 2010 (2009 – \$1,432,000).

27. Contingent liabilities

The group has given guarantees to HM Revenue and Customs in respect of VAT and deferred duty. At 31 December 2010 the guarantee amounted to \$156,568 (2009 – \$161,498).

At 31 December 2010 documentary letters of credit totalled \$98,600 (2009 – \$392,720).

The company is a party to AMG Advanced Metallurgical Group N.V.'s term and revolving credit facilities and has given fixed and floating charges over all its assets and liabilities to participate in those group banking facilities.

The company's assets are secured against the parent company's banking facilities totalling up to \$275m in term loans and revolving credit facilities. As at 31 December 2010, there was \$159.5m outstanding in term loans and revolving credit facilities (2009 – \$134.8m).

In the opinion of the directors no loss is expected to arise as a result of these matters.

28. Employment benefits

Defined contribution plans

The total expense recognised in the income statement for the year ended 31 December 2010 of \$1,249 (2009 – \$1,229) represents contributions paid and payable to these plans.

Defined benefit plans

London & Scandinavian Metallurgical Co Limited sponsors two defined benefit schemes, the LSM 2006 Pension Plan defined benefit section ('2006 pension plan') and the LSM Additional Pension Plan ('additional pension plan').

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at 31 December 2010

28. Employment benefits (continued)

Defined benefit plans (continued)

The asset recognised in the statement of financial position is detailed below

	2010	2009	2008
	\$000	\$000	\$000
2006 pension plan	4,126	3,581	2,149
Additional pension plan	429	438	438
	<u>4,555</u>	<u>3,969</u>	<u>2,587</u>

The group offer retirement benefit plans to its employees. The defined benefit section of the 2006 pension plan was closed to new employees and to further service for current employees during 2006. As the remaining service for active members is zero, scheme assets are measured at the bid market value at the statement of financial position date. The liabilities of the pension plan are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. Estimated future cash flows are discounted at the current rate of return on high quality corporate bonds of an equivalent term of the liability. Actuarial gains and losses in excess of the 10% corridor are recognised in full in the year in which they occur in the statement of comprehensive income.

IAS 19 requires that the discount rate used be determined by reference to market yields at the reporting date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension obligations. The discount rate has been assessed by reference to the duration of the pension plan liabilities and by reference to the published iBoxx index of Sterling corporate bonds of duration greater than 15 years and investment grade AA and above. Allowance is made where the constituent bonds in the published index have been re-rated or new issues made. The rate of inflation influences the assumption for salary and pension increase. This has been assessed by reference to yields on long-term fixed and index-linked Government bonds and has regard to Bank of England published inflationary expectations.

The last full actuarial valuation of the 2006 pension plan was carried out by a qualified independent actuary at 31 December 2009 and updated on an approximate basis to 31 December 2010.

The expected return on bonds is determined by reference to UK long-dated gilt and bond yields at the reporting date. The expected rate of return on equities have been determined by setting an appropriate risk premium above Government bond yields, having regard to market conditions at the reporting date. The expected long-term return on cash is equal to bank base rates at the reporting date.

The expected long-term rates of return per annum on plan assets are as follows:

	2010	2009	2008
	%	%	%
Equities	8.5	9.6	8.3
Bonds	5.5	6.7	6.0
Government bonds	4.15	N/A	N/A
Cash	2.0	2.0	5.5
Overall for defined benefit plans	<u>6.3</u>	<u>7.41</u>	<u>7.75</u>

The underlying assets and liabilities are denominated in Sterling, as the functional currency is US Dollars, these are translated at the closing exchange rate. The exchange gains or losses are included within the fair value of plan assets at the end of the reporting period.

Notes to the financial statements

at 31 December 2010

28. Employment benefits (continued)

Defined benefit plans (continued)

The actual return on plan assets for the year ending 31 December 2010 was \$13,829,983 (2009 – \$20,890,000)

The assumption used to measure the net pension obligation of the pension plans are as follows

	2010 %	2009 %	2008 %
Inflation	3.5	3.6	3.0
Salary increases	N/A	N/A	N/A
Rate used to discount liabilities	5.4	5.65	6.7
Allowances for pension in payment increases of the Retail Prices Index (RPI) or 5% p a , if less	3.4	3.5	2.9
Allowances for revaluation of deferred pensions of RPI or 5% p a , if less	3.5	3.6	3.0
Allowances for commutation of pension for cash at retirement	—	—	—

Assumptions regarding future mortality are not only based on published statistics and mortality tables, but also take into account the actual membership experience and specific demographics of the Group's workforce. The average life expectancy assumptions, after retirement at 60 years of age, are as follows

Male retiring in 2010	24.5
Female retiring in 2010	27.3
Male retiring in 2030	26.7
Female retiring in 2030	29.3

Contributions of \$1,261,000 have been made by the employer over the period for the pension plans (2009 – \$1,172,000). The best estimate of contributions to be paid to the primary plan for the year ended 31 December 2011 is \$939,000.

Amounts recognised in respect of the pension plans are as follows

	2010 \$000	2009 \$000	2008 \$000
Fair value of plan assets	92,708	89,956	74,656
Present value of funded obligations	(93,973)	(95,815)	(71,411)
(Deficit)/surplus in plan	(1,265)	(5,859)	3,245
Unamortised past service costs	—	—	—
Unrecognised actuarial losses/(gains)	5,820	9,828	(658)
Asset recognised in statement of financial position	4,555	3,969	2,587

Notes to the financial statements

at 31 December 2010

28. Employment benefits (continued)

Defined benefit plans (continued)

Changes in the amount recognised in respect of the pension plans are as follows

	2010	2009
	\$000	\$000
Opening asset recognised in statement of financial position	3,969	2,587
(Expense)/income recognised in income statement	(675)	212
Employer contribution	1,261	1,170
Closing asset recognised in statement of financial position	<u>4,555</u>	<u>3,969</u>

Changes in the present value of defined benefit obligations are as follows

	2010	2009
	\$000	\$000
Opening defined benefit obligation	95,815	71,411
Current service costs	752	530
Interest cost	5,292	4,790
Actuarial (losses)/gains	(93)	15,520
Exchange rate movements	(2,800)	10,326
Benefits paid, death in service insurance premiums and expenses	<u>(4,993)</u>	<u>(6,762)</u>
Closing defined benefit obligation	<u>93,973</u>	<u>95,815</u>

Changes in fair value of plan assets are as follows

	2010	2009
	\$000	\$000
Opening fair value of plan assets	89,956	74,656
Expected return on plan assets	5,369	5,530
Actuarial gains	5,318	4,356
Exchange rate movements	(4,203)	11,004
Contributions by employer	1,261	1,172
Benefits paid, death in service insurance premiums and expenses	<u>(4,993)</u>	<u>(6,762)</u>
Closing fair value of plan assets	<u>92,708</u>	<u>89,956</u>

Plan assets consist of the following

	2010	2009	2008
	\$000	\$000	\$000
Equities	27,799	22,065	16,970
Bonds	55,231	64,374	55,176
Cash	316	3,517	2,510
Government bonds	9,362	—	—
Total plan assets	<u>92,708</u>	<u>89,956</u>	<u>74,656</u>

Notes to the financial statements

at 31 December 2010

28. Employment benefits (continued)

Defined benefit plans (continued)

	2010 \$000	2009 \$000
Current service costs	752	530
Total operating charge	752	530
Interest on defined benefit obligation	5,292	4,790
Expected return on plan assets	(5,369)	(5,530)
Net finance income	(77)	(740)
Expense/(income) recognised in income statement	675	(210)

Amounts for the current and previous period are as follows

	2010 \$000	2009 \$000
Fair values of plan assets	92,708	89,956
Present value of defined benefit obligation	(93,973)	(95,815)
Deficit in plan	(1,265)	(5,859)
Experience adjustment on defined benefit obligation	9,387	(10,357)
Experience adjustment on plan assets	1,115	15,360
Effects of changes in the demographic and financial assumptions underlying the present value of defined benefit obligation	(6,494)	(15,489)

29. Related party transactions

Transactions with key management personnel

The directors are considered to be only the key management personnel. The compensation of the directors is disclosed in note 6.

Transactions with entities within a group

According to IAS 24 all subsidiaries and associates within the AMG Advanced Metallurgical Group N V group are related parties to the group and transactions with those have to be disclosed in the group's separate financial statements. The related party transactions concerning sales and purchases of goods, recharges for accounting, IT and purchasing services for the year and the balances outstanding at 31 December 2010 are summarised in the tables overleaf.

All the transactions overleaf are undertaken on normal commercial terms.

Notes to the financial statements

at 31 December 2010

29. Related party transactions (continued)

Transactions with entities within a group (continued)

The related party transactions concerning sales and purchases of goods, recharges for accounting, IT and purchasing services of the group for the year and the balances outstanding at 31 December 2010 are summarised below

	<i>Sale of goods 2010 \$000</i>	<i>Recharge income 2010 \$000</i>	<i>Debtors 2010 \$000</i>	<i>Sale of goods 2009 \$000</i>	<i>Recharge income 2009 \$000</i>	<i>Debtors 2009 \$000</i>
Ultimate parent company	—	—	—	—	—	—
Immediate parent company	—	105	400	—	60	295
Associate	44	—	—	778	—	192
Fellow subsidiaries of the larger Group	47,346	—	17,834	34,711	—	14,783

	<i>Purchases 2010 \$000</i>	<i>Recharged expenses 2010 \$000</i>	<i>Creditors 2010 \$000</i>	<i>Purchases 2009 \$000</i>	<i>Recharged expenses 2009 \$000</i>	<i>Creditors 2009 \$000</i>
Ultimate parent company	—	1,469	1,469	—	—	333
Immediate parent company	—	—	43	—	19	44
Associate	—	—	—	—	—	—
Fellow subsidiaries of the larger Group	790	812	1,044	999	485	2,089

The \$1,469,000 charge from the ultimate parent company represented a management service fee

Notes to the financial statements

at 31 December 2010

29. Related party transactions (continued)

Transactions with entities within a group (continued)

In addition to the above transactions, the company had the following additional transactions with other group members that were eliminated on consolidation in the group financial statements

	<i>Sale of goods</i>	<i>Recharge income</i>	<i>Debtors</i>	<i>Sale of goods</i>	<i>Recharge income</i>	<i>Debtors</i>
	<i>2010</i>	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>	<i>2009</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Subsidiaries	641	34,098	6,733	–	21,713	2,695

Included in recharge income above is \$29,960,000 relating to aluminium metal purchased by the company on behalf of one of its subsidiaries

	<i>Purchases</i>	<i>Recharged expenses</i>	<i>Creditors</i>	<i>Purchases</i>	<i>Recharged expenses</i>	<i>Creditors</i>
	<i>2010</i>	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>	<i>2009</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Subsidiaries	19,719	–	14,535	11,375	–	9,674

In addition to the above, \$28,000 of interest was charged to the company during 2009 from the ultimate parent in relation to a \$5,000,000 loan that was repaid during 2009

Included in recharge income above is \$17,925,000 relating to aluminium metal purchased by the company on behalf of one of its subsidiaries

Notes to the financial statements

at 31 December 2010

30. Capital management, financial risk management objectives and policies

Capital management

The primary objective of the group is to maintain strong capital ratios in order to support its business and maximise shareholder value. The group manages its capital structure and makes adjustments to it, in light of economic conditions. Its policy is to ensure that the debt levels are manageable to the group and that they are not increasing at a level that is in excess of the increases that occur within equity.

The group's principal financial liabilities are comprised of payables to affiliates and trade payables. The group has various financial assets such as trade and other receivables, receivables from affiliates and cash, which arise directly from its operations.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The main risks arising from the group's financial instruments are credit, liquidity, foreign currency, and commodity.

Credit risk

Customer risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from customers.

The amounts presented on the statement of financial position are net of allowances for doubtful receivables estimated by the group's management, based on prior experience and the current economic climate.

The group trades only with creditworthy third parties. It is the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures which ensure their creditworthiness. In addition, receivable balances are monitored on an ongoing basis to ensure that the group's exposure to impairment losses is not significant.

The group's maximum exposure is the carrying amount as discussed in note 15 - \$52,943,000. The group closely monitors its due but unimpaired receivables as detailed in note 16.

The group's Treasury function monitors the location of cash and cash equivalents and monitors the strength of those banks.

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation. The group aims to mitigate liquidity risk by managing cash generation by its operations. In addition, the group's ultimate parent undertaking has banking facilities in place, in the event further cash flow is required.

It is group policy to agree payment terms with its suppliers. Payment is made when it can be confirmed that the goods or services have been provided in accordance with the relevant contractual conditions.

Notes to the financial statements

at 31 December 2010

30. Capital management, financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the group's financial liabilities at 31 December 2010 based on contractual undiscounted payments

31 December 2010	Carrying amount \$000	Contractual cash flows \$000	< 3 months \$000	3–12 months \$000	2012 \$000	2013 \$000	2014 \$000	>2014 \$000
Pension plan obligations	–	6,762	282	845	1,127	1,127	1,127	2,254
Trade and other payables	37,056	37,056	37,056	–	–	–	–	–
Financial derivatives	1,446	1,446	987	459	–	–	–	–
Non-cancellable operating leases	–	38	19	19	–	–	–	–
Other	5,314	–	5,314	–	–	–	–	–
Total	43,816	45,302	43,658	1,323	1,127	1,127	1,127	2,254
31 December 2009	Carrying amount \$000	Contractual cash flows \$000	< 3 months \$000	3–12 months \$000	2012 \$000	2013 \$000	2014 \$000	>2014 \$000
Pension plan obligations	–	5,874	245	734	979	979	979	1,958
Trade and other payables	19,036	19,036	19,036	–	–	–	–	–
Financial derivatives	798	777	873	(96)	–	–	–	–
Non cancellable operating leases	–	146	49	97	–	–	–	–
Other	2,606	–	–	–	–	–	–	–
Total	22,440	25,833	20,203	735	979	979	979	1,958

It is not expected that the timing or amount of contractual commitments would differ significantly from the above table

Notes to the financial statements

at 31 December 2010

30. Capital management, financial risk management objectives and policies (continued)

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the group's income or the value of its holdings of financial instruments

Short term receivables and payables are not exposed to interest rate risk. The group does not have other financial assets and liabilities that are exposed to interest rate risk

Currency risk

Currency risk is the risk that changes in foreign exchange rates will affect the group's income or the value of its holdings of financial instruments. The group's functional currency is US dollars. A significant proportion of the group's purchases and sales are in US dollars. However, the group has exposures to purchases and sales made in Sterling and sales made in Euros

The group has developed policies to manage effectively the group's currency exposures and minimise the risks of currency fluctuations on a group level and uses forward currency contracts. The group itself does not use these financial instruments on a group only level

The group deems its primary currency exposures to be in sales (trade receivables) and purchases (trade payables) denominated in Euros and British Pound Sterling. The following tables demonstrate the sensitivity to a reasonable possible change in the functional currencies of the company's exchange rates with all other variables held constant, of the group's profit before tax (due to changes in the fair value of monetary assets and liabilities). Changes in sensitivity rates reflect various changes in the economy year-over-year

	<i>Change in relation to functional currency</i>	<i>Effect on profit before tax</i>
<i>31 December 2010</i>		
EUR	+ 5%	(42)
EUR	- 5%	42
Sterling	+ 5%	(5)
Sterling	- 5%	5
	<i>Change in relation to functional currency</i>	<i>Effect on profit before tax</i>
<i>31 December 2009</i>		
EUR	+ 5%	(1)
EUR	- 5%	1
Sterling	+ 5%	(349)
Sterling	- 5%	349

Notes to the financial statements

at 31 December 2010

30. Capital management, financial risk management objectives and policies (continued)

Currency risk (continued)

	<i>Change in relation to functional currency</i>	<i>Effect on profit before tax</i>
<i>1 January 2009</i>		
EUR	+ 5%	(126)
EUR	- 5%	126
Sterling	+ 5%	(42)
Sterling	- 5%	42

Commodity price risk

Commodity price risk is the risk that certain raw materials prices will increase and negatively impact the gross margins and operating results of the group. The group is exposed to volatility in the prices of aluminium, nickel and copper publicly traded on the London Metal Exchange and uses forward contracts to manage these exposures.

The following table demonstrates the sensitivity to a reasonable possible change in the market price of these publicly traded commodities. Changes in sensitivity rates reflect various changes in the economy year over year.

	<i>Change in price</i>	<i>Effect on profit before tax</i>
<i>31 December 2010</i>		
Aluminium	+ 5%	(325)
Nickel	+ 5%	(1)
Copper	+ 5%	(3)
Aluminium	- 5%	325
Nickel	- 5%	1
Copper	- 5%	3
<i>31 December 2009</i>		
Aluminium	+ 5%	(85)
Nickel	+ 5%	19
Copper	+ 5%	(10)
Aluminium	- 5%	85
Nickel	- 5%	(19)
Copper	- 5%	10

Notes to the financial statements

at 31 December 2010

30. Capital management, financial risk management objectives and policies (continued)

Currency risk (continued)

<i>1 January 2009</i>	<i>Change in price</i>	<i>Effect on profit before tax</i>
Aluminium	+ 5%	(23)
Nickel	+ 5%	(20)
Copper	+ 5%	3
Aluminium	– 5%	23
Nickel	– 5%	20
Copper	– 5%	(3)

31. Accounting estimates and judgements

Provision for bad debts

The group has a policy of providing for trade receivables which are overdue by 60 days or more. It is management's judgement that where this is the case the whole debt relating to the customer is provided for even if not yet due, as the risk of default is considered high. The amount recorded as a provision for potential bad debts was \$84,000 and \$48,000 at 31 December 2010 and 31 December 2009 respectively for the group and company.

Inventory provisions

The group has a policy of making a provision against slow moving inventories as follows:

- 0-1 years – No provision
- 1-2 years – 33% provision
- 2-3 years – 66% provision
- >3 years – 100% provision

Management considers this the best estimate to minimise the impact to the company of slow moving stocks.

The group has a policy of making provisions to value the inventory at the lower of cost and net realisable basis. Where market conditions exist such that there is an indication products may require writing down to net realisable value, the products are reviewed on a product by product basis with the average inventory value and average net realisable value calculated and the relevant provision recorded.

The total inventory provision recorded at 31 December 2010 was \$2,044,000 (2009 – \$2,128,000) for the group and \$1,827,000 (2009 – \$1,976,000) for the company.

Notes to the financial statements

at 31 December 2010

32. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Metallurg Europe Limited, a company registered in England and Wales

The largest group in which the results of the company are consolidated, and the ultimate controlling party, is AMG Advanced Metallurgical Group N V whose principal address is WTC Amsterdam, Toren C, 13th Floor, Strawinskylaan 1343, 1077 XX Amsterdam Copies of the financial statements of AMG Advanced Metallurgical Group N V can be obtained from the principal address

33. Transition to IFRS

As of 31 December 2009, the group ceased to prepare financial statements under United Kingdom Generally Accepted Accounting Principles ('UK GAAP') The following reconciliations describe the effect of the differences between UK GAAP as the group's previously applied accounting standards and IFRS on equity as of 31 December 2009 and in the opening statement of financial position as of 1 January 2009 as well as on the net result for the financial year ended 31 December 2009 The entity was not required to present a statement of cash flows under previous UK GAAP

Notes to the financial statements

at 31 December 2010

33. Transition to IFRS (continued) Effects on equity between UK GAAP and IFRS – Group

Shareholders equity under UK GAAP

	Notes	Issued capital \$000	Capital reserve \$000	Revaluation reserve \$000	Share-based payments reserve \$000	Foreign currency translation adjustment \$000	Other comprehensive income \$000	Retained earnings \$000	Total \$000
at 1 January 2009		30,698	25,000	6,854	937	–	–	17,673	81,162
Land and buildings	(a)	–	–	(6,854)	–	–	–	–	(6,854)
Goodwill	(b)	–	–	–	–	–	–	1,208	1,208
Derivative financial instruments	(c)	–	–	–	–	–	(6,403)	144	(6,259)
Deferred tax	(d)	–	–	–	–	–	1,793	(2,402)	(609)
Pensions	(e)	–	–	–	–	–	–	2,587	2,587
Reclassification of foreign currency exchange reserve	(f)	–	–	–	–	364	–	(364)	–

Equity under IFRS at 1 January 2009

30,698	25,000	–	937	364	(4,610)	18,846	71,235
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Notes to the financial statements

at 31 December 2010

33. Transition to IFRS (continued)

Effects on equity between UK GAAP and IFRS – Group

	Notes	Issued capital \$000	Capital reserve \$000	Revaluation reserve \$000	Share-based payments reserve \$000	Foreign currency translation adjustment \$000	Other compre- hensive income \$000	Retained earnings \$000	Total \$000
Shareholders equity under UK GAAP									
at 31 December 2009		30,698	25,000	6,377	2,174	–	–	9,894	74,143
Land and buildings	(a)	–	–	(6,377)	–	–	–	–	(6,377)
Goodwill	(b)	–	–	–	–	–	–	1,381	1,381
Derivative financial instruments	(c)	–	–	–	–	–	726	13	739
Deferred tax	(d)	–	–	–	–	–	(203)	(3,067)	(3,270)
Pensions	(e)	–	–	–	–	–	–	8,187	8,187
Reclassification of foreign currency exchange reserve	(f)	–	–	–	–	392	–	(392)	–
Equity under IFRS at 31 December 2009		30,698	25,000	–	2,174	392	523	16,016	74,803

Notes to the financial statements

at 31 December 2010

33. Transition to IFRS (continued)

Effects on equity between UK GAAP and IFRS – Company

	Notes	Issued capital \$000	Capital reserve \$000	Revaluation reserve \$000	Share-based payments reserve \$000	Retained earnings \$000	Total \$000
Shareholders equity under UK GAAP at 1 January							
2009		30,698	25,000	6,854	937	5,500	68,989
Land and buildings	(a)	–	–	(6,854)	–	–	(6,854)
Goodwill	(b)	–	–	–	–	1,208	1,208
Derivative financial instruments	(c)	–	–	–	–	(6,259)	(6,259)
Deferred tax	(d)	–	–	–	–	(338)	(338)
Pensions	(e)	–	–	–	–	2,449	2,449
Equity under IFRS at 1 January 2009		30,698	25,000	–	937	2,562	59,197

Shareholders equity under UK GAAP at 31 December

2009		30,698	25,000	6,377	2,174	1,010	65,259
Land and buildings	(a)	–	–	(6,377)	–	–	(6,377)
Goodwill	(b)	–	–	–	–	1,381	1,381
Derivative financial instruments	(c)	–	–	–	–	737	737
Deferred tax	(d)	–	–	–	–	(2,982)	(2,982)
Pensions	(e)	–	–	–	–	3,817	3,817
Equity under IFRS at 31 December 2009		30,698	25,000	–	2,174	3,963	61,835

Notes to the financial statements

at 31 December 2010

33. Transition to IFRS (continued)

Effects on profit for the year between UK GAAP and IFRS

	<i>Note</i>	<i>Group \$000</i>	<i>Company \$000</i>
Net result under UK GAAP at 31 December 2009		2,319	33
Depreciation	(a)	477	477
Goodwill	(b)	173	173
Derivative instruments	(c)	(132)	6,997
Deferred tax	(d)	(667)	(2,644)
Pensions	(e)	–	1,365
Net result under IFRS at 31 December 2009		<u>2,170</u>	<u>6,401</u>

(a) Land and buildings

On transition to IFRS, land and buildings which had been previously revalued and frozen under FRS15 were restored to their historic cost less accumulated depreciation consistent with the policy adopted in the ultimate parent undertaking's financial statements

This resulted in the elimination of the revaluation reserve of \$6,854,000 and \$6,377,000 at 1 January 2009 and 31 January 2009 respectively, with a corresponding reduction in the net book value of land and buildings

The effect on profit for the year ended 31 December 2009 was an increase of \$477,000, representing additional depreciation charged under UK GAAP as a result of the revalued land and buildings

The adjustments for the group and company were the same

(b) Goodwill

Goodwill totalling \$1,208,000 and \$1,381,000 at 1 January 2009 and 31 December 2009 respectively was recognised on transition to IFRS. This represented amounts previously amortised under UK GAAP.

The effect on profit for the year ended 31 December 2009 was an increase of \$173,000 representing amortisation not required under IFRS.

The adjustments for the group and company were the same

(c) Derivative financial instruments

As disclosed in note 22, the group and company enters into foreign currency and commodity forward contracts to manage its exposure to these risks. The group and company adopt hedge accounting and under IFRS are required to fair value the financial instruments and assess their effectiveness. The portion of the gain or loss deemed to be effective is recognised directly in equity with any ineffective portion recognised in the income statement. The gain or loss deferred in equity is recycled to the income statement when the hedged cash flows affect income. Under UK GAAP there was no requirement to fair value financial instruments and transactions being recognised directly in the income statement.

At the group level all hedges were deemed effective which resulted in the recognition of a charge to the other comprehensive income reserve of \$6,403,000 at 1 January 2009. At 31 December 2009 the other comprehensive income reserve was a credit of \$726,000. The actual impact on the net result for 2009 was a decrease to profit of \$132,000.

Notes to the financial statements

at 31 December 2010

33. Transition to IFRS (continued)

Effects on profit for the year between UK GAAP and IFRS (continued)

(c) Derivative financial instruments (continued)

For the year ended 31 December 2009 and for part of the year ended 31 December 2010 the hedges at a company level were not deemed to be efficient as the company also hedges exposure for a subsidiary and did not have the required documentation in place for these to be treated as effective hedges. As a result no other comprehensive income reserve was recognised at either 1 January 2009 or 31 December 2009 at the company level but an adjustment to retained earnings of \$6,259,000 (charge) and \$737,000 (credit) respectively was required on conversion to IFRS. The impact on the net result was an increase to profit for the year ended 31 December 2009 of \$6,997,000.

(d) Deferred tax

The impact of the transition from UK GAAP to IFRS resulted in additional deferred tax liabilities of \$4,910,000 (of which \$1,640,000 is disclosed in the pension adjustment) and \$609,000 (\$nil) being recognised at 1 January 2009 and 31 December 2009 respectively at group level.

At company level, the additional deferred tax liabilities were \$337,000 and \$2,981,000 at 1 January and 31 December 2009 respectively.

The effect on profit for the year ended 31 December 2009 was a decrease of \$667,000 (group) and \$2,644,000 (company), representing the additional deferred tax recognised during the year to 31 December 2009.

(e) Pensions

Under UK GAAP FRS 17 was adopted as the basis for accounting for pension costs. As the company was unable to identify its share of the underlying assets and liabilities of the group pension scheme, the defined benefit scheme was accounted for by the company as a defined contribution scheme with all contributions recognised directly in the income statement.

As part of the conversion to IFRS the group scheme assets were required to be identified separately and as a result the defined benefit scheme was no longer treated in this way.

Pension assets of \$2,587,000 (\$2,449,000 – company) and \$3,969,000 (\$3,748,000 – company) were recorded at January 2009 and 31 December 2009 respectively under IFRS. The impact on equity was an increase of \$2,587,000 (\$2,449,000 – company) and \$8,187,000 (\$3,817,000 – company) at 1 January 2009 and 31 December 2009 respectively.

There was no impact to the net result at a group level, but at the company level the contributions no longer charged to the income statement resulted in an increase to the net result of \$1,365,000.

(f) Foreign currency

A separate reserve was created in the group financial statements under IFRS for the effect of foreign currency translation adjustments on consolidation. This resulted in a transfer from retained earnings to the foreign currency translation adjustment reserve of \$364,000 and \$392,000 at 1 January 2009 and 31 December 2009 respectively. The overall effect to equity was \$nil at both 1 January 2009 and 31 December 2009.

There was no effect to the company reserves.