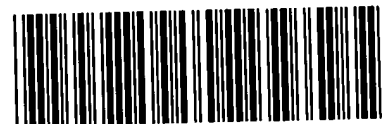


Company Registration No. 00702790 (England and Wales)

HARSCO METALS GROUP LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

TUESDAY



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18/09/2018
COMPANIES HOUSE

HARSCO METALS GROUP LIMITED

COMPANY INFORMATION

Directors	C C L Whistler J J Sweeney S Cooper R Weckx W Mullen	(Appointed 12 April 2018) (Appointed 20 April 2018)
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Company number	00702790
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Registered office	Harsco House Regent Park 299 Kingston Road Leatherhead Surrey KT22 7SG
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Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Central Square 29 Wellington Street Leeds LS1 4DL
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Bankers	National Westminster Bank plc St James' and Piccadilly Branch PO Box 2DG Piccadilly London W1A 2DG
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Solicitors	Freeth Cartwright LLP Churchill House Regent Road Stoke on Trent Staffordshire ST1 3RQ
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HARSCO METALS GROUP LIMITED

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HARSCO METALS GROUP LIMITED

STRATEGIC REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The directors present the strategic report for the financial year ended 31 December 2017.

Review of the business

During 2017 the Company did not manage to renew all of its contracts at its largest operating site. This has resulted in reduced revenue and profitability for the year, although the company reduced its cost base accordingly. Overall turnover for the year decreased to £117,260,000, (2016: £120,112,000) as a result of lost contracts part way through the year in the UK sites. Operating profit decreased to £154,000 (2016: operating profit of £1,385,000) which was mostly due to ongoing cost base.

Management has assessed the possibility of utilisation of the deferred tax assets and have written this down based on future utilisation forecasts available to date by £8,663,140.

The company continues to be managed on a global divisional basis as part of the Harsco Corporation, which is listed on the New York Stock Exchange.

Principle risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the company are considered to relate to competition from national and international competitors and key customer activity levels. From the perspective of the company, the principal risks and uncertainties are integral to the principal risks of the Harsco Corporation and are not managed separately. The group strategy to overcome this competition includes enterprise business optimisation programs, international customer expansion, particularly in emerging economies, and the diversification, streamlining and consolidation of operations.

Development and Performance

Future UK trading performance is anticipated to be consistent with 2017. The directors are satisfied that having considered the confirmation received from Harsco Corporation that financial support is available if so required, the going concern basis of preparation remains appropriate.

Key performance indicators

The directors manage the business operations on a global divisional basis and therefore using key performance indicators of the company is not necessary or appropriate for an understanding of the development, performance or position of Harsco Metals Group Limited.

On behalf of the board



S Cooper

Director

11 September 2018

HARSCO METALS GROUP LIMITED

DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The directors present their annual report and audited financial statements for the financial year ended 31 December 2017.

Principal activities

The principal activity of the company continued to be that of specialised services throughout the entire metals production process of the steel industry within the United Kingdom and the provision of management services.

Directors

The directors who held office during the financial year and up to the date of signature of the financial statements were as follows:

C C L Whistler	
G Raisbeck	(Retired 12 April 2018)
G M Stubbs	(Retired 30 March 2018)
J J Sweeney	
S Cooper	
R Weckx	(Appointed 12 April 2018)
W Mullen	(Appointed 20 April 2018)

Results and dividends

The results for the financial year are set out on page 8.

No ordinary dividends were declared. The directors do not recommend payment of a final dividend.

Financial instruments

Financial risk management

The company's operations expose it to a variety of financial risks that include liquidity risk, interest rate cash flow risk and credit risk.

Liquidity risk

The company has access to a mixture of long-term and short-term debt facilities that ensure that the company has sufficient available funds for operations and planned expansions.

The company is a participating employer of the defined benefit section of the Harsco Pension Scheme. Cashflows for the deficit contributions of the scheme are managed on a group wide basis (see note 26).

Interest rate cash flow risk

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets are limited to cash balances, which earn interest at the bank's base rate. The company also has a bank overdraft, on which interest is charged at 1% above the base rate.

Amounts owed to group undertakings bear interest at a rate of 1.12% to 2.34% (2016: 1.13% to 1.84%) per annum depending on the lifetime and interest periods of the respective loans.

Foreign currency risk

The company's principal foreign currency exposures arise from trading with overseas companies. Company policy permits but does not demand that these exposures may be hedged in order to fix the cost in sterling. This hedging activity involves the use of foreign exchange forward contracts.

HARSCO METALS GROUP LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the board.

Research and development

Research and development on new products is primarily carried out at Harsco Corporation sites worldwide, but locally some product development costs are incurred on new innovations for use throughout the business.

Disabled persons

The following policy has been applied in respect of the employment of disabled persons.

The company recognises its responsibility to employ disabled persons in suitable employment and gives full and fair consideration to applications for employment made by such persons, having regard to their particular aptitudes and abilities.

Any employee who becomes disabled is encouraged to remain in the company's employment, in the same job if this is practicable. If a change of job is necessary, such an employee is considered for any suitable alternative work which is available and any necessary training is arranged.

Disabled employees are treated equally with all employees in respect of their eligibility for training, career development and promotion.

Employee involvement

The company continues its policy of keeping its employees informed on a regular basis of matters concerning them as employees and on financial and economic factors affecting the performance of the company. Employees' representatives are consulted on a wide range of matters affecting their current and future interests.

Future developments

The company will continue with its innovation and technology development programme and is looking to develop existing services and bring new services to existing and new markets.

Independent Auditors

In accordance with the company's articles, a resolution proposing that PricewaterhouseCoopers LLP, be reappointed as independent auditors of the company will be put to a general meeting.

On behalf of the board



S Cooper

Director

11 September 2018

HARSCO METALS GROUP LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

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

HARSCO METALS GROUP LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HARSCO METALS GROUP LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Harsco Metals Group Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

HARSCO METALS GROUP LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF HARSCO METALS GROUP LIMITED

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

HARSCO METALS GROUP LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE MEMBERS OF HARSCO METALS GROUP LIMITED

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Kevin Strauther (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

13 September 2018

HARSCO METALS GROUP LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Turnover	3	117,260	120,112
Other operating income		161	130
Raw materials and consumables		(16,044)	(15,564)
Staff costs	7	(47,651)	(49,499)
Depreciation and other amounts written off tangible and intangible fixed assets	5	(12,555)	(14,369)
Profit on disposal of tangible fixed assets	4	1,191	174
Other operating expenses		(42,208)	(39,599)
Operating profit	5	154	1,385
Interest receivable and similar income	9	782	777
Interest payable and similar expenses	10	(1,074)	(1,279)
(Loss)/profit before taxation		(138)	883
Tax on (loss)/profit	11	(9,106)	(2,495)
Loss for the financial financial year		(9,244)	(1,612)

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.

HARSCO METALS GROUP LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Goodwill	13	23,466	26,226
Other intangible assets	13	1,396	2,023
Total intangible assets		24,862	28,249
Tangible assets	14	17,491	23,337
Investments	15	3,863	3,863
		46,216	55,449
Current assets			
Stocks	17	1,579	1,519
Debtors amounts falling due after more than one year	18	4,361	13,170
Debtors amounts falling due within one year	18	37,926	36,321
Cash at bank and in hand		12,677	14,195
		56,543	65,205
Creditors: amounts falling due within one year	19	(30,395)	(39,021)
Net current assets		26,148	26,184
Total assets less current liabilities		72,364	81,633
Creditors: amounts falling due after more than one year	20	(18,792)	(19,264)
Provisions for liabilities	23	(1,343)	(896)
Net assets		52,229	61,473
Capital and reserves			
Called up share capital	24	90,001	90,001
Share premium account		5	5
Profit and loss account		(37,777)	(28,533)
Total equity		52,229	61,473

The financial statements were approved by the board of directors and authorised for issue on 11 September 2018 and are signed on its behalf by:



S Cooper
Director

Company Registration No. 00702790

HARSCO METALS GROUP LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2016	90,001	5	(26,921)	63,085
Year ended 31 December 2016:				
Loss and total comprehensive expense for the financial year	-	-	(1,612)	(1,612)
Balance at 31 December 2016	90,001	5	(28,533)	61,473
Year ended 31 December 2017:				
Loss and total comprehensive expense for the financial year	-	-	(9,244)	(9,244)
Balance at 31 December 2017	90,001	5	(37,777)	52,229

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

Company information

Harsco Metals Group Limited is a private company limited by shares incorporated in England and Wales. The registered office is Harsco House, Regent Park, 299 Kingston Road, Leatherhead, Surrey, KT22 7SG.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been consistently applied and have been prepared on the historical cost convention. The principal accounting policies adopted are set out below.

The company has taken advantage of the exemption, under FRS 102 paragraph 1.12, from preparing a statement of cashflows, financial instrument disclosures and share based payment arrangements, paragraph 4.12(a) statement of financial position and paragraph 33.7 for non disclosure of related party on the basis that it is a qualifying entity and its ultimate parent company, Harsco Corporation, includes this information in its own consolidated financial statements.

The company has taken advantage of the exemption under section 401 of the Companies Act 2006 not to prepare consolidated financial statements. The financial statements present information about the company as an individual entity and not about its group.

Harsco Metals Group Limited is a wholly owned subsidiary of Harsco Corporation and the results of Harsco Metals Group Limited are included in the consolidated financial statements of Harsco Corporation which are available from 350 Poplar Church Road, Camp Hill, Pennsylvania 17011, USA.

1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future considering the confirmation received from Harsco Corporation that financial support is available if so required. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Turnover

Turnover represents income from the invoiced value of goods and services supplied to customers (excluding value added tax and trade discounts) and amounts (excluding value added tax) derived from the provision of services to fellow group companies during the year.

Revenue from services is recognised as earned when, and to the extent that, the company obtains the right to consideration in exchange for its performance. It is measured at the fair value of the right to consideration, which represents amounts chargeable to clients, including expenses and disbursements but excluding value added tax.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.4 Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

1.5 Intangible fixed assets - goodwill

Goodwill, representing the excess of the fair value of the consideration for subsidiaries and other business over the fair values of the net assets acquired, is capitalised and written off in equal annual instalments over its expected useful economic life of twenty years.

The carrying value of goodwill is evaluated when an impairment event is identified to determine if there has been impairment in value which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

1.6 Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful economic lives on the following bases:

Software	5 years
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1.7 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned as summarised below. The spread of lives recognises the diversity of the assets within each class:

Land and buildings Freehold	Over periods up to 15 years
Short leasehold land and buildings	Over lease term
Plant and machinery	4 - 10 years
Fixture and Fittings	3 - 5 years
Office equipment	3 - 5 years
Transport	3 - 6 years

Freehold land and assets in the course of construction are not depreciated.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.8 Fixed asset investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the company holds a long-term interest and where the company has significant influence. The company considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate.

Entities in which the company has a long term interest and shares control under a contractual arrangement are classified as jointly controlled entities.

1.9 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

1.10 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Stocks held for distribution at no or nominal consideration are measured at the lower of replacement cost and cost, adjusted where applicable for any loss of service potential.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.11 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.12 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Fair value measurement of financial instruments

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

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

Other financial liabilities

Derivatives, including forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.13 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.14 Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

1.15 Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

1.16 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

In particular:

Restructuring provisions are recognised when the company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal constructive obligation to carry out the restructuring.

Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

1.17 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

1.18 Retirement benefits

The company participates in a contributory defined benefit pension scheme in respect of some full time permanent employees. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions to the scheme are charged to the profit and loss account so as to reflect the accounting as if the defined benefit scheme were a defined contribution scheme as disclosed in note 26. With effect from 1 January 2009, existing members did not accrue any further service in their sections of the defined benefit scheme and were transferred to the defined contribution section for future service.

The deficit and the related pension costs are disclosed in the ultimate employer Harsco Investment Limited.

The company also operates a contributory defined contribution section of the scheme in respect of some full time employees. The assets of the scheme are held separately from those of the company in an independently administered fund. Once the contributions have been paid the company has no further payment obligations. Amounts not paid are shown in accruals in the balance sheet. The amounts charged to the profit and loss account in respect of defined contribution schemes represent the contributions payable under the rules of the schemes.

1.19 Share-based payments

The fair value of equity-settled share based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the company's estimate of shares or options that will eventually vest.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

Where the company participates in a share-based payment arrangement established by a group company the company takes advantage of the alternative treatment allowed under Section 26 of FRS 102. The company recognises the share-based payment expense based on an allocation of its share of the group's total expense, calculated in relation to the potential shares issued to the number of participating employees.

1.20 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

1.21 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Any revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Goodwill

During the year the company did not manage to renew all of its contracts resulting in an impairment trigger.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the reporting end date was £23,466,000 (2016: £26,226,000) and in the Directors judgement, it is not impaired.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2 Judgements and key sources of estimation uncertainty

(Continued)

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Provisions

Provisions are made for insurance, severance and asset retirement obligations and dilapidations. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements and the timing of the cash flows.

Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience.

Deferred taxation

Determining whether deferred taxation is impaired requires an estimation of the value of the UK group tax position that Harsco Metals Group Limited is a part of under current tax legislation. The value calculation requires the company to estimate the future tax utilisation forecasts expected to arise from the UK tax group. The carrying amount of deferred taxation at the reporting end date was £4,243,000 after an impairment loss of £8,663,140 was recognised during 2017. Details of the impairment loss are set out in note 25.

3 Turnover

An analysis of the company's turnover is as follows:

	2017 £'000	2016 £'000
Turnover analysed by class of business		
Specialised goods and services for Steel Industry	88,534	94,013
Management Services	28,726	26,099
	<u>117,260</u>	<u>120,112</u>
	2017 £'000	2016 £'000
Other significant revenue		
Interest income	<u>782</u>	<u>777</u>

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

3 Turnover	(Continued)	
	2017 £'000	2016 £'000
Turnover analysed by geographical market		
United Kingdom	88,651	94,130
Rest of Europe	13,876	13,387
North America	9,637	8,541
South America	2,533	2,290
Africa	677	-
Rest of world	1,886	1,764
	<u>117,260</u>	<u>120,112</u>
4 Profit on disposal of tangible fixed assets		
	2017 £'000	2016 £'000
Profit on disposal of tangible fixed assets	<u>(1,191)</u>	<u>(174)</u>
During 2017 the company did not manage to renew all of its contracts at its largest operating site and consequently sold its tangible fixed assets in relation to these contracts resulting in a gain of £1,191,096.		
5 Operating profit		
	2017 £'000	2016 £'000
Operating profit for the year is stated after charging:		
Exchange losses	13	82
Research and development costs	739	533
Depreciation of owned tangible fixed assets	7,844	9,424
Depreciation of tangible fixed assets held under finance leases	564	708
Impairment of owned tangible fixed assets	565	74
Amortisation of intangible assets	3,582	4,163
Cost of stocks recognised as an expense	8,151	7,532
Impairment of stocks recognised or reversed	37	105
Share-based payments	1,038	771
Operating lease charges	<u>1,981</u>	<u>2,581</u>
6 Auditors' remuneration		
	2017 £'000	2016 £'000
Fees payable to the company's independent auditors and associates:		
For audit services		
Audit of the financial statements of the company and fellow group subsidiaries	<u>134</u>	<u>122</u>
For other services		
Other taxation services	<u>34</u>	<u>10</u>

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

6 Auditors' remuneration

(Continued)

7 Staff costs

The average monthly number of persons (including directors) employed by the company during the financial year was:

	2017 Number	2016 Number
Administration	123	124
Operations	805	926
	<u>928</u>	<u>1,050</u>

Their aggregate remuneration comprised:

	2017 £'000	2016 £'000
Wages and salaries	37,521	39,247
Social security costs	3,837	3,911
Pension costs	6,293	6,341
	<u>47,651</u>	<u>49,499</u>
Redundancy payments made or committed	<u>308</u>	<u>665</u>

Included in wages and salaries are share based payment expense of £1,038,295 (2016: £771,138). The company recognises the share-based payment expense based on an allocation of its share of the group's total expense, calculated in relation to the potential shares issued to the number of participating employees.

8 Directors' remuneration

	2017 £'000	2016 £'000
Remuneration for qualifying services	1,551	1,380
Amounts receivable under long term incentive schemes	485	308
Company pension contributions to defined contribution schemes	46	59
	<u>2,082</u>	<u>1,747</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 3 (2016 - 5).

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

8 Directors' remuneration

(Continued)

The number of directors who are entitled to receive shares under long term incentive schemes during the financial year was 5 (2016 - 4).

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2017 £'000	2016 £'000
Remuneration for qualifying services	430	357
Amounts receivable under long term incentive schemes	243	132
Company pension contributions to defined contribution schemes	-	16
Accrued pension at the end of the financial year	44	34

The highest paid director has been entitled to receive shares under a long term incentive scheme during the financial year.

9 Interest receivable and similar income

	2017 £'000	2016 £'000
Interest income		
Interest on bank deposits	782	777

10 Interest payable and similar expenses

	2017 £'000	2016 £'000
Interest on bank overdrafts and loans	601	689
Interest on finance leases and hire purchase contracts	44	70
Interest payable to group undertakings	429	520
	1,074	1,279

11 Tax on (loss)/profit

	2017 £'000	2016 £'000
Current tax		
UK corporation tax on losses for the current year	501	3,319
Adjustments in respect of prior years	(311)	(213)
Total current tax	190	3,106

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

11 Tax on (loss)/profit	(Continued)	
Deferred tax		
Origination and reversal of timing differences	269	(1,243)
Write down or reversal of write down of deferred tax asset	8,663	-
Adjustments in respect of prior years	(16)	632
	<u> </u>	<u> </u>
Total deferred tax	8,916	(611)
	<u> </u>	<u> </u>
 Total tax charge	 9,106	 2,495
	<u> </u>	<u> </u>

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016. These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The actual charge for the financial year can be reconciled to the expected (credit)/charge for the financial year based on the profit or loss and the standard rate of tax as follows:

	2017 £'000	2016 £'000
(Loss)/profit before taxation	<u>(138)</u>	<u>883</u>
 Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	(27)	177
Tax effect of expenses that are not deductible in determining taxable profit	92	194
Adjustments in respect of prior years	(311)	(213)
Amortisation on assets not qualifying for tax allowances	532	552
Research and development tax credit	8	-
Share based payment charge	200	155
Deferred tax adjustments in respect of prior years	(16)	632
Write down of deferred tax asset	8,663	-
Effect of changes in tax rate on deferred tax asset	(35)	998
	<u> </u>	<u> </u>
Tax charge for the year	9,106	2,495
	<u> </u>	<u> </u>

Management has assessed the possibility of utilisation of the deferred tax assets and have written this down based on future utilisation forecasts available to date by £8,663,140.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

12 Impairments

Impairment tests have been carried out where appropriate and the following impairment losses have been recognised in profit or loss:

	Notes	2017 £'000	2016 £'000
In respect of:			
Property, plant and equipment	14	565	74
Stocks	17	37	105
		<u> </u>	<u> </u>
Recognised in:			
Raw materials and consumables		37	105
Depreciation and other amounts written off tangible and intangible fixed assets		565	74
		<u> </u>	<u> </u>

13 Intangible assets

	Goodwill £'000	Software £'000	Total £'000
Cost			
At 1 January 2017	57,231	8,938	66,169
Additions - separately acquired	-	195	195
Disposals	-	(459)	(459)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2017	57,231	8,674	65,905
	<u> </u>	<u> </u>	<u> </u>
Accumulated amortisation and impairment			
At 1 January 2017	31,005	6,915	37,920
Amortisation charged for the financial year	2,760	822	3,582
Disposals	-	(459)	(459)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2017	33,765	7,278	41,043
	<u> </u>	<u> </u>	<u> </u>
Carrying amount			
At 31 December 2017	23,466	1,396	24,862
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2016	26,226	2,023	28,249
	<u> </u>	<u> </u>	<u> </u>

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

14 Tangible assets

	Land and buildings Freehold	Short leasehold and buildings	Assets under construction	Plant and machinery	Fixture and Fittings	Office equipment	Transport	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost								
At 1 January 2017	1,575	3,105	180	109,949	735	1,949	5,197	122,690
Additions	-	123	1,456	2,357	40	53	67	4,096
Disposals	-	(54)	-	(14,994)	(52)	(342)	(64)	(15,506)
Transfers	-	-	(907)	894	-	-	13	-
At 31 December 2017	1,575	3,174	729	98,206	723	1,660	5,213	111,280
Accumulated depreciation and impairment								
At 1 January 2017	216	2,819	-	89,583	485	1,701	4,549	99,353
Depreciation charged in the financial year	-	176	-	7,761	57	110	304	8,408
Impairment losses	-	-	-	565	-	-	-	565
Eliminated in respect of disposals	-	(54)	-	(14,025)	(52)	(342)	(64)	(14,537)
At 31 December 2017	216	2,941	-	83,884	490	1,469	4,789	93,789
Carrying amount								
At 31 December 2017	1,359	233	729	14,322	233	191	424	17,491
At 31 December 2016	1,359	286	180	20,366	250	248	648	23,337

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

14 Tangible assets

(Continued)

The net carrying value of tangible assets includes the following in respect of assets held under finance leases or hire purchase contracts. The depreciation charge in respect of such assets amounted to £564,299 (2016: £707,578) for the financial year.

	2017 £'000	2016 £'000
Plant and machinery	643	1,311
Depreciation charge for the financial year in respect of leased assets	564	708

More information on the impairment arising in the financial year is given in note 12.

15 Investments

	Notes	2017 £'000	2016 £'000
Investments in subsidiaries	16	3,863	3,863

Investments not carried at market value

The investments in subsidiaries are all stated at cost less provision for impairment.

Movements in fixed asset investments

	Shares in group undertakings £'000
Cost or valuation	
At 1 January 2017 & 31 December 2017	4,133
Accumulated impairment	
At 1 January 2017 & 31 December 2017	270
Carrying amount	
At 31 December 2017	3,863
At 31 December 2016	3,863

During 2017 Harsco Global Sourcing Limited was liquidated resulting in a loss of £100.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

16 Subsidiaries

Separate company financial statements are required to be prepared by law. Consolidated financial statements for Harsco Corporation are prepared and publicly available.

Details of the company's subsidiaries at 31 December 2017 are as follows:

Name of undertaking	Registered office key	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Harsco Metals 373 Limited	1	Non-trading	'A' preference shares	100.00	
Harsco Metals 373 Limited	1	Non-trading	Ordinary shares	100.00	
Harsco Metals 373 Limited	1	Non-trading	5% redeemable shares	100.00	
Mastclimbers Limited	1	Non-trading	Ordinary shares	100.00	

Registered Office addresses:

1 All subsidiaries have the same registered office as Harsco Metals Group Limited

The investments in subsidiaries are all stated at cost less provision for impairment.

17 Stocks

	2017 £'000	2016 £'000
Raw materials and consumables	1,579	1,519

Stocks are stated after provision for impairment of £164,843 (2016: £124,132).

18 Debtors

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Trade debtors	15,052	13,811
Amounts owed by group undertakings	15,681	14,491
Other debtors	612	454
Prepayments and accrued income	6,581	7,565
	<u>37,926</u>	<u>36,321</u>

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

18 Debtors	(Continued)	
	2017 £'000	2016 £'000
Amounts falling due after more than one year:		
Prepayments and accrued income	118	11
Deferred tax asset (note 25)	4,243	13,159
	<u>4,361</u>	<u>13,170</u>
Total debtors	<u>42,287</u>	<u>49,491</u>

Trade debtors disclosed above are measured at amortised cost.

Trade debtors are stated after provisions for impairment of £nil (2016: £nil).

Amounts owed by group undertakings falling due within one year of £15,680,863 (2016: £14,491,007) are unsecured, do not bear interest and are repayable on demand.

Included in prepayments and accrued income is £4,712,475 (2016: £6,207,978) of accrued income not billed.

19 Creditors: amounts falling due within one year		2017 £'000	2016 £'000
	Notes		
Obligations under finance leases	22	472	608
Trade creditors		7,765	8,156
Amounts owed to group undertakings		15,604	20,859
Corporation tax		-	2,710
Other taxation and social security		2,014	2,045
Other creditors		13	21
Accruals and deferred income		4,527	4,622
		<u>30,395</u>	<u>39,021</u>

Amounts owed to group undertakings of £4,743,990 (2016: £11,690,469) are unsecured, and interest is charged at rates ranging from 1.12% to 2.34% (2016: 1.13% to 1.34%) and are repayable on demand. Amounts owed to group undertakings of £10,859,621 (2016: £9,168,278) are unsecured, interest free and repayable on demand.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

20 Creditors: amounts falling due after more than one year

	Notes	2017 £'000	2016 £'000
Obligations under finance leases	22	292	764
Other borrowings	21	18,500	18,500
		<u>18,792</u>	<u>19,264</u>

21 Bank loans and overdrafts

	2017 £'000	2016 £'000
Loans from group undertakings	<u>18,500</u>	<u>18,500</u>
Payable after one year	<u>18,500</u>	<u>18,500</u>

Amounts owed to group undertakings of £18,500,000 (2016: £18,500,000) are unsecured and interest is charged at rates ranging from 1.55% to 1.62% (2016: 1.63% to 1.84%) and are due to be repaid 23 December 2020.

22 Finance lease obligations

	2017 £'000	2016 £'000
Future minimum lease payments due under finance leases:		
Within one year	472	608
In two to five years	292	764
	<u>764</u>	<u>1,372</u>

Finance lease payments represent rentals payable by the company for certain items of plant and machinery. Leases include purchase options at the end of the lease period, and no restrictions are placed on the use of the assets. The average lease term is 5 years for plant and machinery. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

23 Provisions for liabilities

	2017 £'000	2016 £'000
Insurance	1,091	653
Severance	106	104
Property	146	139
	<u>1,343</u>	<u>896</u>

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

23 Provisions for liabilities

(Continued)

Movements on provisions:

	Insurance £'000	Severance £'000	Property £'000	Total £'000
At 1 January 2017	653	104	139	896
Additional provisions in the year	577	308	7	892
Reversal of provision	(128)	-	-	(128)
Utilisation of provision	(11)	(306)	-	(317)
At 31 December 2017	<u>1,091</u>	<u>106</u>	<u>146</u>	<u>1,343</u>

The insurance provision relates to Harsco Metals Group Limited's liability for known outstanding claims and incurred but not yet reported claims for bodily injury and damage sustained by third parties arising from the company's activities. The liability arises under the insurance policy deductibles, which apply to the company's Employers' liability and Public/Products Liability policies of insurance.

The £106,466 (2016: £103,745) severance provision represents team restructures and should be utilised during 2018.

The £145,634 (2016: £138,941) property provision represents costs to be incurred in respect of premises and this will be utilised over the next five years.

24 Called up share capital

	2017 £'000	2016 £'000
Ordinary share capital		
Issued and fully paid		
90,000,769 (2016: 90,000,769) ordinary shares of £1 each	<u>90,001</u>	<u>90,001</u>

The company has one class of ordinary shares which carry no right to fixed income.

25 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	Assets 2017 £'000	Assets 2016 £'000
Balances:		
ACAs	3,984	13,102
Other timing differences	<u>259</u>	<u>57</u>
	<u>4,243</u>	<u>13,159</u>

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

25 Deferred taxation

(Continued)

	2017 £'000
Movements in the financial year:	
Asset at 1 January	(13,159)
Charge to profit or loss	269
Other	8,647
	<hr/>
Asset at 31 December	(4,243)
	<hr/>

Management has assessed the possibility of utilisation of the deferred tax assets and have written this down based on future utilisation forecasts available to date by £8,663,140 for the reversal of timing differences on capital allowances.

Deferred tax has been calculated at 17% as this is the enacted rate from 1 April 2020 and it is expected that the majority of deferred tax asset will be utilised in future years.

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

26 Retirement benefit schemes

	2017 £'000	2016 £'000
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	6,293	6,341

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

Defined benefit schemes

The company is a participating employer of the Harsco Pension Scheme ("the Scheme"). Harsco Investment Limited is the principal employer. All participating employers taken together are referred to as the "Group". The Scheme comprises ten sections: seven defined benefit sections relating to the Harsco Metals subsidiaries ("the Harsco Metals section of the Scheme"), two defined benefit sections relating to Harsco Infrastructure subsidiaries ("the Harsco Infrastructure section of the Scheme") and one combined defined contribution section.

The Harsco Pension Scheme has defined benefit sections which is accounted for by the principal employer Harsco Investment Limited. However, the contributions paid by the company are accounted as if the scheme were a defined contribution scheme.

With effect from 1 January 2009, existing members did not accrue any further service in their sections of the defined benefit scheme and were transferred to the defined contribution section for future service.

In November 2013 the trade and assets of Harsco Infrastructure Services Limited were sold to Harsco Infrastructure UK Limited. As part of this transaction the defined benefit obligations of Harsco Infrastructure Services Limited were retained by the Harsco group and Harsco Infrastructure Services Limited ceased to be a participating employer of the scheme or to have any future obligations in relation to the scheme, as the obligations were assumed by the remaining sponsoring employers, and Harsco Corporation Inc., the ultimate parent entity, put in place a guarantee for all future agreed contributions to the Scheme up to a maximum of £225m.

The cost of contributions to the defined benefit sections of the Harsco Pension Scheme amount to £5,191,090 (2016: £5,183,711) representing deficit funding contributions. From 1 January 2009, contributions to these sections were entirely in respect of deficit funding contributions, and are managed on a group wide basis. These are based on pension costs across the group as a whole and additional contributions will continue in line with the schedule of contributions agreed to 2025 with the company and trustees of the pension scheme. The schedule of contributions is reviewed every 3 years and up-dated based on the latest actuarial valuation.

27 Related party transactions

Transactions with related parties

During the financial year the company entered into the following transactions with related parties:

	Services provided		Services received	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Entities within the group not wholly owned	928	564	135	304

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

27 Related party transactions

(Continued)

The following amounts were outstanding at the reporting end date:

	2017 £'000	2016 £'000
Amounts owed to related parties		
Entities within the group not wholly owned	135	223

The following amounts were outstanding at the reporting end date:

	2017 Balance £'000
Amounts owed by related parties	
Entities within the group not wholly owned	644

	2016 Balance £'000
Amounts owed in previous year	
Entities within the group not wholly owned	1,060

The company has taken advantage of the exemption in FRS 102 from the requirement to disclose transactions with group companies on the grounds that all such transactions are between companies that are ultimately wholly owned by Harsco Corporation.

28 Financial commitments, guarantees and contingent liabilities

The company is party to an unlimited cross guarantee in favour of other Harsco Metals and Harsco Group companies as part of a cash pooling arrangement. This arrangement is underwritten by Harsco Corporation. At 31 December 2017, the contingent liability under this guarantee was £14,360,464 (2016: £14,233,968).

29 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £'000	2016 £'000
Within one year	86	150
Between two and five years	1,979	2,848
In over five years	-	83
	<u>2,065</u>	<u>3,081</u>

HARSCO METALS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

29 Operating lease commitments

(Continued)

Lessor

The operating leases represents a sub-lease to third parties. The lease is negotiated over terms of 5 years and rentals are fixed for 5 years. There are no options in place for either party to extend the lease terms.

At the reporting end date the company had contracted with tenants for the following minimum lease payments:

	2017 £'000	2016 £'000
Between two and five years	567	727

Contingent rents recognised as income in the financial year amount to £145,420 (2016 - £109,063).

30 Capital commitments

At 31 December the company had capital commitments as follows:

	2017 £'000	2016 £'000
Acquisition of tangible fixed assets	2,409	325
Acquisition of intangible assets	62	-
	2,471	325

31 Controlling party

The company's immediate parent company is Harsco (UK) Group Limited a company registered in England and Wales.

Harsco Investment Limited, a company incorporated in England and Wales, is the company's ultimate UK parent company.

Harsco Corporation, a company incorporated in the United States of America, is the company's ultimate controlling entity and the ultimate parent company for which group financial statements are drawn up. It is also the parent of the largest and the smallest group to consolidate these financial statements. Copies of the group financial statements of Harsco Corporation may be obtained from Harsco Corporation, 350 Poplar Church Road, Camp Hill, PA 17011, U.S.A.