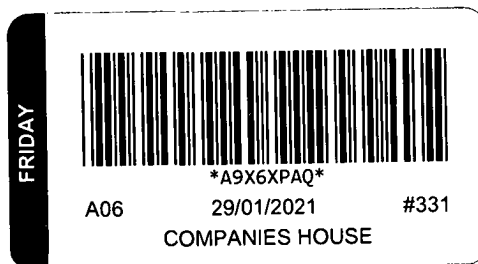


Registration number: 05440463

Kennametal Manufacturing UK Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2020



Kennametal Manufacturing UK Limited

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Kennametal Manufacturing UK Limited

Company Information

Directors	M Williams J Grainger
Company secretary	J Grainger
Registered office	Building 14 PO BOX 29 Pensnett Trading Estate Kingswinford West Midlands DY6 7NP
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors East Midlands Donington Court Pegasus Business Park Castle Donington DE74 2UZ
Bankers	Bank of America 2 King Edward Street London EC1A 1HQ

Strategic Report

for the Year Ended 30 June 2020

The directors present their strategic report for the year ended 30 June 2020.

Principal activities

The principal activity of the company is the reconditioning of carbide drills at the Kingswinford facility and the production of boride powders and inter-metallic evaporation sources at the Newport Facility.

Fair review of the business

The business environment is highly competitive and the company has differentiated itself from its competitors by focusing on state of the art manufacturing technologies and processes in order to deliver both a cost competitive and technologically enhanced product offering.

The company's overriding objective is to achieve attractive and sustainable rates of profitable growth through a combination of organic growth and acquisitions. The key elements of the company's strategy for growth are:

- Developing its product range and increasing the number of new products.
- Effective training and development to retain employees and deliver the customer service promise.

The directors consider the results for the year to be in line with expectations.

Results for the year

The profit for the financial year amounted to £152,000 (2019: £56,000).

Key performance indicators (KPI's)

The primary KPI used by management is growth in turnover generated in the wider Kennametal Group, through the activities of this company. The turnover in 2020 was £5,279,485 (2019: £5,223,858). The activities of the company are closely linked with those of the Kennametal Group, which is driven by the portfolio management, and sales and marketing strategy.

As a result of the straightforward nature of the business, the company's directors are of the opinion that analysis using other KPI's is not necessary for an understanding of the development, performance or position of the business. The activities of the company are closely linked with those of the Kennametal Group and therefore group KPI's are monitored at a group level.

Principal 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 relate to increased competition, uncertainty in the manufacturing sector and economic instability. From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of Kennametal Inc. Group, which include those of the company, are discussed in the group's annual report which does not form part of this report.

Strategic Report

for the Year Ended 30 June 2020

Financial risk management policies and procedures

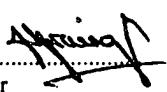
The key financial risk that the company's operations expose it to is price risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company.

The company's turnover is invoiced in Pounds Sterling and all of its operations and costs are also invoiced in Pounds Sterling. Consequently the impact of movements in exchange rates on the performance of the company are minimised.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management. The policies set by the directors are implemented by the company's finance department. The directors are committed to ensuring that the highest quality risk management systems are in operation. The objective is to safeguard the interests of the shareholders, suppliers, customers and staff through effective management of corporate and operational risk.

Price risk - The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits.

Approved by the Board on 28.01.21 and signed by


.....
J Grainger
Director

Directors' Report

for the Year Ended 30 June 2020

The directors present their annual report and the audited financial statements for the year ended 30 June 2020.

Directors of the company

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

M Williams

J Grainger

Dividends

The directors do not recommend the payment of any dividends (2019: £Nil).

Directors' indemnities

The company maintains liability insurance for its directors and officers. Following shareholder approval the company has also provided an indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. The qualifying indemnity was in force during the financial year and also at the date of approval of the financial statements.

Employment of disabled persons

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retaining being given if necessary.

Employee consultation

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company.

COVID-19 and Kennametal Inc.

The Coronavirus Disease 2019 (COVID-19) emerged in China at the end of calendar year 2019 bringing significant uncertainty in our end markets and operations. National, regional and local governments have taken steps to limit the spread of the virus through stay-at-home, social distancing and various other orders and guidelines.

Kennametal Inc has been deemed an essential business and continue to operate globally. The company's strong liquidity position has allowed them to continue their simplification/modernization initiatives, including capital expenditure.

Directors' Report

for the Year Ended 30 June 2020

COVID-19 and Kennametal Inc. (continued)

The Kennametal Inc. Group's and regional forecasts scenarios consider COVID-19 impacts and demonstrate that in worst case scenarios, that the UK entity will be able to operate for at least twelve months from the approval date of these Financial Statements. Kennametal has a strong liquidity position, even under worst case volume decline of up to 62%, Kennametal has sufficient funding available to meet the COVID-19 downturn.

Beside solid available own cash, Kennametal has a revolving credit facility agreement which allows up to \$700 million. EMEA can participate with up to \$250 million in this credit agreement, not considered additional available local credit lines.

Going concern

The company receives reimbursement and Markup from the Toller contract with Kennametal Europe GmbH on a monthly basis. The entity is able to fully finance its cost with those payments. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The entity has a short term receivable against Kennametal Holding GmbH from the Cash Pool of GBP 944k as of December 2020.

The KMT group has made worst case scenarios of reduced business through closures of its own or customer productions in light of the current business environment especially COVID-19 exposure.

The company has made enquiries to the directors of Kennametal Holding GmbH, which is the Cash Pooling Holder of the EMEA Kennametal Group and they confirmed there is currently no risk in the Financing structure of the group, and liquidity will be assured for the foreseeable future. The directors, having assessed the responses of the directors of the company's parent enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the group's ability to continue with the current cash generation and banking arrangements.

The company believes that it is appropriate for the company's financial statements to have been prepared on a going concern basis and that no further disclosures relating to the company's ability to continue as a going concern need to be made.

Events since the balance sheet date

The UK Brexit transition period ended on 31 December 2020. On December 24, 2020, the U.K. and the EU struck a provisional free-trade agreement that ensures the two sides can trade goods without tariffs or quotas. Except from trade compliance and tax processes adjustments, the directors do not believe that it will have a material impact on the business but will continue to monitor further events closely.

Financial risk management

Further details of the company's activities in respect of financial risk management are included in the Strategic Report on page 3.

Directors' Report

for the Year Ended 30 June 2020

Future developments

Kennametal Manufacturing UK Limited has GBP 944k as at 31 December 2020 on deposit with EMEA. The company continues to work under the Toll Manufacturing Contract with Kennametal Europe GmbH, and has received confirmation about the continuation of the contractual arrangements with Kennametal Europe GmbH for the foreseeable future, at least 12 month from the signature of Financial Statement 2020. Planned volumes for FY21 are generally expected to be fairly flat with those of FY20. The impact of COVID-19 has only been limited because end markets are in food packaging, and this market has been unaffected. Additionally, a major customer in the US has sustained strong demand over the period. Capital Investment has mainly been for a building extension to improve material handling and more efficient material flow. Some small investment in a new Tablet Press was also made to improve throughput/yield. Other investment during the year was made to improve Health & Safety issues.

Disclosure of information to the auditors

Each director has taken 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. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Statement of directors' responsibilities in respect of the financial statements

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.

Reappointment of auditors

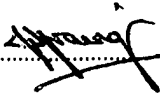
The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office. The independent auditors PricewaterhouseCoopers LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Kennametal Manufacturing UK Limited

Directors' Report
for the Year Ended 30 June 2020

Approved by the Board on 28.01.21 and signed on its behalf by:

.....
J Grainger
Director



Independent Auditors' Report

to the Members of Kennametal Manufacturing UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Kennametal Manufacturing UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2020 and of its profit 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 Statement of Financial Position as at 30 June 2020; the Statement of Comprehensive Income, 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 ISAs (UK) require us to report to you where:

- 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.

Independent Auditors' Report

to the Members of Kennametal Manufacturing UK 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 or, 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 30 June 2020 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 Statement of directors' responsibilities in respect of the financial statements set out on page 6, 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.

Independent Auditors' Report

to the Members of Kennametal Manufacturing UK Limited

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.

Other required reporting

Type text here

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.



.....
Andrew Dymond (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

28 January 2021
Date:.....

Statement of Comprehensive Income
for the year ended 30 June 2020

	<i>Note</i>	<i>2020</i> <i>£' 000</i>	<i>2019</i> <i>£' 000</i>
Turnover	4	5,279	5,224
Cost of sales		<u>(5,078)</u>	<u>(5,156)</u>
Operating profit	5	201	68
Interest receivable and similar income	6	<u>3</u>	<u>5</u>
Profit before taxation		204	73
Tax on profit	10	<u>(52)</u>	<u>(17)</u>
Profit for the financial year		<u>152</u>	<u>56</u>

The above results were derived from continuing operations.

The company has no recognised gains or losses for the year other than the results above.

Kennametal Manufacturing UK Limited

Statement of Financial Position

as at 30 June 2020

Registration number: 05440463

	Note	2020 £' 000	2019 £' 000
Fixed assets			
Intangible assets	11	20	24
Tangible assets	12	<u>3,023</u>	<u>3,021</u>
		<u>3,043</u>	<u>3,045</u>
Current assets			
Debtors: amounts falling due within one year	13	1,331	1,515
Debtors: amounts falling due after more than one year	13	<u>-</u>	<u>16</u>
		1,331	1,531
Creditors: Amounts falling due within one year	14	<u>(817)</u>	<u>(1,207)</u>
Net current assets		<u>514</u>	<u>324</u>
Total assets less current liabilities		3,557	3,369
Provisions for other liabilities	15	<u>(36)</u>	<u>-</u>
Net assets		<u>3,521</u>	<u>3,369</u>
Capital and reserves			
Called up share capital	17	5	5
Share premium account		130	130
Profit and loss account		<u>3,386</u>	<u>3,234</u>
Total equity		<u>3,521</u>	<u>3,369</u>

Approved and authorised by the Board on 28.01.21 and signed on its behalf by:



 J Grainger
 Director

The notes on pages 14 to 29 form an integral part of these financial statements.

Kennametal Manufacturing UK Limited

Statement of Changes in Equity
for the Year Ended 30 June 2020

	<i>Called up Share capital £' 000</i>	<i>Share premium account £' 000</i>	<i>Profit and loss account £' 000</i>	<i>Total £' 000</i>
At 1 July 2018	5	130	3,178	3,313
Profit for the financial year	-	-	56	56
At 30 June 2019	5	130	3,234	3,369
	<i>Called up Share capital £' 000</i>	<i>Share premium account £' 000</i>	<i>Profit and loss account £' 000</i>	<i>Total £' 000</i>
At 1 July 2019	5	130	3,234	3,369
Profit for the financial year	-	-	152	152
At 30 June 2020	5	130	3,386	3,521

The notes on pages 14 to 29 form an integral part of these financial statements.

Notes to the Financial Statements

for the Year Ended 30 June 2020

1 General information

Kennametal Manufacturing UK Limited's principal activity is the reconditioning of carbide drills at the Kingswinford facility and the production of boride powders and inter-metallic evaporation sources at the Newport facility.

The company is a private company limited by share capital, is incorporated in England and domiciled in the UK.

The address of its registered office is Building 14, PO BOX 29, Pensnett Trading Estate, Kingswinford, West Midlands, DY6 7NP, United Kingdom.

2 Accounting policies

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

Basis of preparation

These financial statements have been prepared using the historical cost convention.

These financial statements are presented in £ (GBP).

The level of rounding is to the nearest thousand ('000).

Exemptions for qualifying entities under FRS102

FRS 102 allows a qualifying entity certain disclosure exemptions. Exemptions under FRS 102 paragraph 1.12 have been applied in relation to: presentation of a cash flow statement, related party transactions, certain financial instrument disclosures and the non-disclosure of key management personnel compensation.

Cash flow statement

The company is a wholly owned subsidiary company of a group headed by Kennametal Inc, and is included in the consolidated financial statements of that company, which are publicly available via the company's website www.kennametal.com or from Kennametal Inc., 1600 Technology Way, Latrobe, PA 15650, United States of America. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 102 paragraph 1.12 (b).

Related party transactions

The company has taken advantage of the exemption granted under FRS 102 paragraph 1.12 (e) to not disclose transactions with other group companies where they are wholly owned by a common parent entity.

Notes to the Financial Statements

for the Year Ended 30 June 2020

2 Accounting policies (continued)

Going concern

The company receives reimbursement and Markup from the Toller contract with Kennametal Europe GmbH on a monthly basis. The entity is able to fully finance its cost with those payments. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The entity has a short term receivable against Kennametal Holding GmbH from the Cash Pool of GBP 944k as of December 2020.

The KMT group has made worst case scenarios of reduced business through closures of its own or customer productions in light of the current business environment especially COVID-19 exposure.

The company has made enquiries to the directors of Kennametal Holding GmbH, which is the Cash Pooling Holder of the EMEA Kennametal Group and they confirmed there is currently no risk in the Financing structure of the group, and liquidity will be assured for the foreseeable future. The directors, having assessed the responses of the directors of the company's parent enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the group's ability to continue with the current cash generation and banking arrangements.

The company believes that it is appropriate for the company's financial statements to have been prepared on a going concern basis and that no further disclosures relating to the company's ability to continue as a going concern need to be made.

Revenue recognition

Revenue is recognised when the risks and rewards of ownership are transferred to a third party, typically when the goods are delivered to the customer.

Turnover represents amounts derived from the reconditioning of carbide drills and the production of boride powders and inter-metallic evaporation sources. Turnover is shown net of value added tax, returns and discounts.

Grants

Grants received in respect of capital expenditure are included within accruals and deferred income within creditors and released to the profit and loss account over the expected useful lives of the related assets.

Foreign currency transactions and balances

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Notes to the Financial Statements

for the Year Ended 30 June 2020

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred tax is recognised in respect of all timing differences between taxable profits and profits reported in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference.

Tangible assets

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Freehold buildings	50 years
Office equipment	3 to 8 years
Plant and machinery	5 to 15 years

Freehold land is not depreciated.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised as a profit/loss on disposal.

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.

Notes to the Financial Statements

for the Year Ended 30 June 2020

2 Accounting policies (continued)

Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life, of between three and five years, on a straight line basis. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Leases

Arrangements which transfer substantially all of the risks and rewards of the assets to the company are classified as finance leases. All other arrangements are classified as operating leases. Amounts payable under operating leases are charged to the profit and loss account on a straight line bases over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term.

Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution and defined benefit pension plans.

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

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.

Financial instruments

The company has adopted sections 11 and 12 of FRS102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other debtors, cash and bank balances and amounts owed by group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rates of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. 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 is recognised in profit or loss.

Notes to the Financial Statements

for the Year Ended 30 June 2020

2 Accounting policies (continued)

Financial assets are derecognised when (a) the contractual rights to the cash flows from the assets expire or are settled, or (b) substantially all the risk and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other creditors and amounts owed to group undertakings 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 receipts discounted at a market rate of interest.

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. Trade creditors 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.

Share capital

Ordinary shares are classified as equity. Dividends and other distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the dividend and other distributions are approved by the shareholders. These amounts are recognised in the Statement of Changes in Equity.

Defined contribution pension obligation

The company operates a defined contribution pension scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

Defined benefit pension obligation

The company also participates in the Kennametal Defined Benefit Pension Scheme (the "Scheme"), which is a multiemployer final salary Scheme.

In accordance with FRS 102, Paragraph 28, the whole of the scheme is accounted for within the financial statements of Kennametal UK Limited, on the basis that it is the sponsoring employer.

Notes to the Financial Statements

for the Year Ended 30 June 2020

3 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives. The useful economic lives are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

Deferred tax asset recognition

Deferred tax asset in respect of unrelieved tax losses are only recognised when it is probable that they will be recovered against future taxable profits. There is a degree of estimation and judgement in assessing the level of future profitability. The net deferred tax asset has therefore been recognised due to the certainty of future taxable profits and the fact that the company has established a track record of taxable profits over prior years.

4 Turnover

The analysis of the Company's turnover for the year by geographical market is as follows:

	2020 £'000	2019 £'000
UK	<u>5,279</u>	<u>5,224</u>

Analysis of turnover by category:

	2020 £'000	2019 £'000
Sales of goods	<u>5,279</u>	<u>5,224</u>

Notes to the Financial Statements

for the Year Ended 30 June 2020

5 Operating profit

Arrived at after charging/(crediting)

	2020 £' 000	2019 £' 000
Depreciation expense	422	394
Operating lease expense - company car	7	19
Amortisation expense	7	5
Loss on disposal of property, plant and equipment	2	1
Release of grant	<u>(125)</u>	<u>(152)</u>

6 Interest receivable and similar income

	2020 £' 000	2019 £' 000
Interest from group undertakings	<u>3</u>	<u>5</u>

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2020 £' 000	2019 £' 000
Wages and salaries	1,983	2,043
Social security costs	210	216
Other pension costs, defined contribution scheme (note 16)	<u>139</u>	<u>173</u>
	<u>2,332</u>	<u>2,432</u>

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

	2020 No.	2019 No.
Production	<u>57</u>	<u>59</u>

Kennametal Manufacturing UK Limited

Notes to the Financial Statements for the Year Ended 30 June 2020

8 Directors' emoluments

The directors' remuneration for the year was as follows:

	2020 £'000	2019 £'000
Aggregate emoluments	<u>242</u>	<u>242</u>

Retirement benefits are accruing to two directors (2019: two) under the defined benefit pension scheme. Aggregated payments of £6,270 (2019: £7,120) were made to the defined contribution pension scheme.

The highest paid director has received the following amount:

	2020 £'000	2019 £'000
Emoluments	153	162
Benefits in kind	19	14
Pension costs, defined contribution scheme	<u>6</u>	<u>4</u>
	<u>178</u>	<u>180</u>

9 Auditors' remuneration

	2020 £'000	2019 £'000
Audit of the financial statements	<u>16</u>	<u>16</u>

Notes to the Financial Statements

for the Year Ended 30 June 2020

10 Tax on profit

Tax charged in the Statement of Comprehensive Income

	2020 £' 000	2019 £' 000
Deferred taxation:		
Origination and reversal of timing differences	54	19
Tax rate changes	(2)	(2)
Total deferred taxation	52	17
Tax expense in the income statement	52	17

The tax assessed for the year is higher (2019 - higher) than the standard rate of corporation tax in the U.K. of 19% (2019: 19%). The charge for the year can be reconciled to the profit per the income statement as follows:

	2020 £' 000	2019 £' 000
Profit before taxation	204	73
Tax on profit at standard UK rate of 19% (2019: 19%)	39	14
Effect of expenses not deductible	11	2
Effects of group relief	4	3
Tax rate changes	(2)	(2)
Tax charge for the year	52	17

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced was to reduce the main rate to 17% from 1 April 2020, and this was enacted on 15 September 2016. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015. The Chancellor's Budget in 2017 and 2018 did not include any provisions to change these rates.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020 and has been recognised at 19%.

Notes to the Financial Statements
for the Year Ended 30 June 2020

11 Intangible assets

Software
£'000

Cost or valuation

At 1 July 2019	87
Additions	3
Disposals	(11)
At 30 June 2020	<u>79</u>

Accumulated amortisation

At 1 July 2019	63
Amortisation charge	7
Amortisation eliminated on disposals	(11)
At 30 June 2020	<u>59</u>

Carrying amount

At 30 June 2020	<u>20</u>
At 30 June 2019	<u>24</u>

Notes to the Financial Statements

for the Year Ended 30 June 2020

12 Tangible assets

	<i>Freehold land and Buildings £' 000</i>	<i>Plant and machinery £' 000</i>	<i>Office Equipment £' 000</i>	<i>Total £' 000</i>
Cost or valuation				
At 1 July 2019	1,910	3,533	1,061	6,504
Additions	250	128	184	562
Disposals	-	(214)	(63)	(277)
At 30 June 2020	<u>2,160</u>	<u>3,447</u>	<u>1,182</u>	<u>6,789</u>
Accumulated depreciation				
At 1 July 2019	1,022	2,146	315	3,483
Charge for the year	55	243	124	422
Eliminated on disposal	-	(77)	(62)	(139)
At 30 June 2020	<u>1,077</u>	<u>2,312</u>	<u>377</u>	<u>3,766</u>
Carrying amount				
At 30 June 2020	<u>1,083</u>	<u>1,135</u>	<u>805</u>	<u>3,023</u>
At 30 June 2019	<u>888</u>	<u>1,387</u>	<u>746</u>	<u>3,021</u>

Freehold land and buildings includes Freehold Land of £259,000 (2019: £259,000) which has not been depreciated.

Notes to the Financial Statements

for the Year Ended 30 June 2020

13 Debtors

	2020 £' 000	2019 £' 000
Amounts falling due within one year		
Amounts owed by group undertakings	1,152	1,350
Other debtors	2	22
Prepayments and accrued income	177	143
	<u>1,331</u>	<u>1,515</u>

The amounts owed by group undertakings are unsecured and repayable on demand, with interest charged at 0.68%.

	Note	2020 £' 000	2019 £' 000
Amounts falling due after more than one year			
Deferred tax	15	-	16

14 Creditors

	2020 £' 000	2019 £' 000
Amounts falling due within one year		
Trade creditors	282	248
Amounts owed to group undertakings	433	626
Accruals and deferred income	88	333
Other taxation and social security	14	-
	<u>817</u>	<u>1,207</u>

The amounts owed to group undertakings are unsecured and repayable on demand, with interest charged at 0.68%.

Notes to the Financial Statements

for the Year Ended 30 June 2020

15 Provisions for other liabilities

Deferred tax

Movement in deferred tax:

	£'000
At 1 July 2019	16
Deferred tax charge to the Statement of Comprehensive Income for the year	(52)
As at 30 June 2020	(36)

The deferred tax liability at 19% (2019: 17%) can be analysed as follows:

	2020 £'000	2019 £'000
Fixed asset timing differences	(158)	(97)
Losses	122	113
	(36)	16

16 Pension commitments

The company participates in the Kennametal Defined Benefit Pension Scheme (the "Scheme"). The assets of the scheme are held separately from those of the company in independently administered funds.

Pension costs are accounted for in accordance with FRS 102, Paragraph 28. The company participates in the Kennametal Defined Benefit Pension Scheme (the "Scheme"), which is a multi-employer final salary scheme.

In accordance with FRS 102, Paragraph 28, the whole of the scheme is accounted for within the financial statements of Kennametal UK Limited, on the basis that it is the sponsoring employer.

The actuarial valuation has been updated at 30 June 2020 by a qualified actuary, XPS Pensions Group, using revised assumptions that are consistent with the requirements of FRS 102, Paragraph 28. Investments have been valued, for this purpose, at fair value. The latest information, at 30 June 2020 shows that the Kennametal Defined Benefit Pension Scheme had the following net position:

Notes to the Financial Statements

for the Year Ended 30 June 2020

16 Pension commitments (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2020 £'000	2019 £'000
Equities	22,334	24,431
Fixed interest bonds	72,727	66,199
Present value of funded liabilities	<u>(86,310)</u>	<u>(80,649)</u>
	8,751	9,981
Restriction in surplus required by FRS 102 (paragraph 28.22)	<u>(8,751)</u>	<u>(9,981)</u>
Defined benefit pension scheme surplus	<u>-</u>	<u>-</u>

Principal actuarial assumptions

The principal actuarial assumptions at the statement of financial position date are as follows:

	2020 %	2019 %
- Discount rate	1.66	2.21
- The inflation assumption (retail price index)	2.90	3.25
- The inflation assumption (consumer price index)	2.00	2.15
- Kennametal Section (post-April 1997, pre 2002 leavers)	2.85	3.15
- Kennametal Section (post-April 1997, post 2002 leavers)	<u>2.05</u>	<u>2.15</u>

The post-retirement mortality assumptions have been set in line with the latest triennial actuarial valuation but with the future improvements updated to the latest CMI 2017 projections and a long term rate of future improvements of 1.25% p.a.

Defined benefit contribution scheme

Contributions paid by the company, to the defined contribution scheme in the year amounted to £139,000 (2019: £173,000). The amounts of contributions outstanding at the year-end were £nil (2019: £nil).

Notes to the Financial Statements

for the Year Ended 30 June 2020

17 Called up share capital

Authorised

	2020		2019	
	No.	£' 000	No.	£' 000
Ordinary share of £1 each	<u>50,000</u>	<u>50</u>	<u>50,000</u>	<u>50</u>

Allotted and fully paid

	2020		2019	
	No.	£' 000	No.	£' 000
Ordinary shares of £1 each	<u>5,001</u>	<u>5</u>	<u>5,001</u>	<u>5</u>

18 Operating lease commitments

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following years:

<i>Payments falling:</i>	2020 £' 000	2019 £' 000
- within one year	10	19
- between two and five years	<u>1</u>	<u>6</u>
	<u>11</u>	<u>25</u>

19 Related party transactions

The company has taken advantage of the exemption granted under FRS102 paragraph 1.12 (c) to not disclose transactions with other group companies where they are wholly owned by a common parent entity.

Notes to the Financial Statements

for the Year Ended 30 June 2020

20 Parent and ultimate parent undertaking

The company's immediate parent is Kennametal UK Limited, incorporated in England.

Kennametal UK Limited is a wholly owned subsidiary undertakings of Kennametal GmbH (formerly Kennametal Hertel AG), incorporated in Germany. The smallest group into which the results of the company are consolidated is that headed by Kennametal GmbH.

The largest group into which the results of the company are consolidated is that headed by the ultimate parent undertaking and controlling party, Kennametal Inc., incorporated in the United States of America. The consolidated financial statements of the group are available from Kennametal Inc., 1600 Technology Way, Latrobe, PA 15650, United States of America.

21 Events since the balance sheet date

The UK Brexit transition period ended on 31 December 2020. On December 24, 2020, the U.K. and the EU struck a provisional free-trade agreement that ensures the two sides can trade goods without tariffs or quotas. Except from trade compliance and tax processes adjustments, the directors do not believe that it will have a material impact on the business but will continue to monitor further events closely.