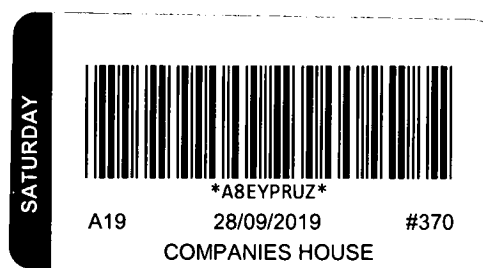


Registered number: 00345279

# AMG SUPERALLOYS UK LIMITED

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018



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**AMG SUPERALLOYS UK LIMITED**

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**COMPANY INFORMATION**

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<b>Directors</b>	E E Jackson L M Scaife K Lawson D R Shea J M Dunckel
<b>Company secretary</b>	T R C Palmer
<b>Registered number</b>	00345279 (England and Wales)
<b>Registered office</b>	Fullerton Road Rotherham South Yorkshire S60 1DL
<b>Auditors</b>	KPMG LLP Chartered Accountants 1 Sovereign Square Sovereign Street Leeds LS1 4DA
<b>Solicitors</b>	DLA Piper UK LLP 1 St Paul's Place Sheffield S1 2JX

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**AMG SUPERALLOYS UK LIMITED**

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## AMG SUPERALLOYS UK LIMITED

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### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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The directors present their strategic report of the Company and the Group for the year ended 31 December 2018.

#### REVIEW OF BUSINESS

The Group statement of profit or loss on page 12. Capital expenditure was \$3,435,000 (2017: \$2,215,000).

	2018 \$000	2017 \$000
Revenue	168,376	140,743
Profit before tax before exceptionals	24,161	9,669
Total equity	93,823	81,138
EBITDA	26,102	12,698
Return on capital employed	84.7%	62.8%

EBITDA is calculated in accordance with the ultimate parent company's guidelines on reporting actual performance. This is calculated as the operating profit add back depreciation and amortisation and excludes management services fees (Note 26), share based payment expense (Note 28) and exceptional items. Return on capital employed is calculated using a two point average for capital employed based on the opening and closing balance sheet. Capital employed is calculated as shareholder funds less cash and cash pooling receivable.

The key measures that are used by our shareholders are EBITDA and return on capital employed.

Overall the performance for the year was considered exceptionally good by the directors with profitability further increasing in 2018 to an EBITDA of \$26.1m from \$12.7m in the previous year. Overall sales revenue increased by \$27.6m in the year.

In the chrome metal market, 2018 saw a significant swing in the market price of chrome with prices approximately doubling during the year. This increase was due to a number of factors including a shortage of the chrome oxide raw material, demand from customers at a high level and chrome metal producers less willing to discount prices to secure business.

The Group's improved sales revenue and profitability is mostly due to the chrome sales price increases already mentioned and an improvement in the product mix towards the higher purity premium chrome business. Chrome volumes were 2.5% lower than in 2018 as a direct result of the shortage of chrome oxide in the market.

At AMG Alpoco UK Limited, the performance for the year was considered very good by the directors with profitability further increasing in 2018 to an EBITDA of \$4.5m. Sales revenues have increased by \$3.0m partly due to the increase in the London Metal Exchange (LME) from \$1,968 in 2017 to \$2,110 (\$1.8m in 2018), a 1% increase in sales volumes and an improvement in the product mix towards premium products. The Company has continued its strategy to increase its focus on value added products & industries. Profit before tax and EBITDA have been positively impacted by the increased sales volumes and an improvement in the mix towards premium products.

The significant improvement to return on capital employed has been due to the improved profitability and working capital in the year but also due to the stepped change in working capital which took place part way through 2017 having a full year impact in 2018 on capital employed.

Following the 2016 EU referendum, the invoking of Article 50 of the Treaty of the European Union and the subsequent Brexit negotiations the Group has not been adversely impacted. The company's local operating costs have been reduced by the devaluation of sterling but partially offset by the reduced value of Sterling sales. This is discussed in more detail in the BREXIT section of this report.

STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2018

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**PRINCIPAL RISKS AND UNCERTAINTIES**

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

***Competition***

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

***Currency exchange and metal price volatility***

The Group's functional currency is US Dollars. A significant proportion of the Group's raw material purchases and sales are in US Dollars. However, the Group has exposure to sales and purchases made in Sterling and sales made in Euros. The Group has developed policies to effectively manage its currency exposures and minimise the risks of currency fluctuations.

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

***Customer risk***

The Group is exposed to the risk of customers defaulting on trade debts or not performing on their contracts. The downturn in the economy over recent years compounds this risk as once sound companies may fail quickly because of existing leverage or lack of financing options. To mitigate this risk, the Group has set credit limits for its customers, which it closely monitors and acts accordingly should circumstances arise.

***Liquidity risk***

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

***Brexit***

Since the 2016 referendum where the UK voted to leave the European Union the Group has been preparing for the proposed exit. As at the time of writing this report a deal has not yet been agreed. This uncertainty has made it more difficult for the Group to plan and assess the financial impact of Brexit. The directors' and senior management team's latest assessment of the risks and uncertainties of Brexit is summarised below:

- Currency – as the Group's functional currency is US Dollars the weakening in sterling has positively impacted the statement of profit and loss since the referendum result. The Group's local operating costs have been reduced by the devaluation of sterling but partially offset by the reduced value of sterling sales. The net saving for the year ended 31 December 2018 was \$921k.
- Customers – as and when required the Group is in communication with its customers on an individual basis. If tariffs are imposed on our goods then pricing discussions will take place with customers on an individual basis. Our customers are aware of potential issues in goods being delayed from the UK and into the EU. We believe that short delays may be possible but that these would not be significant to warrant the warehousing of stock in Europe or have a significant impact to customers.

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**AMG SUPERALLOYS UK LIMITED**

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**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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- Supply chain – the Group purchases goods and services across the world but its exposure in Europe is limited so the risk of delays in deliveries from Europe is considered small.
- Indirect taxes – the financial impact is dependent upon whether there is a hard and soft Brexit. If there is a hard Brexit and World Trade Organisation (WTO) tariffs applied then the Group would be impacted by an increase in duty costs of approximately \$1,331k until favourable trade agreements came into force. If a full soft Brexit occurred and trade agreements were negotiated then there would be no financial impact.
- Indirect taxes – the Group avails itself of all available duty reliefs programmes for custom duties and has increased its authorisation limits to reflect any changes following Brexit.
- Administration – the Group already sells across the world so already has the systems in place to deal with the increased administration of European sales being treated as full exports.
- REACH registrations – the Group has a number of REACH registrations which will need to be transferred to an only representative in order to be able to import and export registered products from the EU. A draft contract has been agreed with an only representative but this can only be signed once Brexit occurs. We would then have to apply for the equivalent registrations under new UK regulations which will mirror the European REACH registrations.
- Impairment of assets risk – this has been assessed and no assets are considered to be impaired as at the statement of financial position date.

**FUTURE DEVELOPMENTS**

The directors believe the Group is in a strong financial position. The Group continues to invest in product development and capital projects, with the aim of improving the Group's profitability and its market share in key areas of the business.

This report was approved by the board and signed on its behalf by



.....  
T R C Palmer  
Secretary  
Date: 25 September 2019

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**AMG SUPERALLOYS UK LIMITED**

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**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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The directors present their report and the financial statements for the year ended 31 December 2018.

**PRINCIPAL ACTIVITY**

The principal activity of the Group is to manufacture and merchandising of metallurgical products.

**PROFIT AND DIVIDENDS**

The profit for the year, after taxation, amounted to \$19,919,000 (2017: \$7,372,000).

In February 2018, the directors recommended and paid a final dividend in respect of the year ended 31 December 2017 of \$259,664. The total distribution of dividends for the year ended 31 December 2018 will be \$259,664 (2017: \$nil). The directors recommend no final dividend be paid in respect of the year ended 31 December 2018.

**DIRECTORS**

The directors who served during the year and to the date of signature of these accounts were:

E E Jackson  
L M Scaife  
K Lawson  
D R Shea  
J M Dunckel

**EMPLOYEES**

Employees are informed regularly about aspects of the business and its progress, which the Group considers relevant to them. As part of the Group's personnel policy, employees are consulted on decisions which affect them and their jobs. The Group endeavours to encourage employees to maintain a sense of identity with its aims and objectives.

Applications for employment by disabled persons are always fully and fairly considered, taking into account the aptitudes and abilities of the applicant concerned. Where employees become disabled, provided they can still perform their duties, the Group endeavours to continue their employment and arrange appropriate training, bearing in mind the handicap or disability. It is the policy of the Group that training, career development and promotion of disabled employees should, as far as possible, be identical to that of other employees.

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

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



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**AMG SUPERALLOYS UK LIMITED**

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**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**AUDITORS**

The auditors, KPMG LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 25 September 2019 and signed on its behalf.

A handwritten signature in black ink, appearing to be 'T R C Palmer', with a long horizontal flourish extending to the right.

T R C Palmer  
Secretary

**DIRECTORS' RESPONSIBILITIES STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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The directors are responsible for preparing the directors' report and the financial statements, in accordance with applicable law.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) 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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AMG SUPERALLOYS UK LIMITED**

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**Opinion**

We have audited the financial statements of AMG Superalloys UK Limited ("the company") for the year ended 31 December 2018 which comprise the Consolidated Statement of Profit and Loss, Consolidated Statement of other Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Cash Flows, and related notes, including accounting policies in note 1. The Financial Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**The impact of uncertainties due to the UK exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of goodwill and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

**Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AMG SUPERALLOYS UK LIMITED**

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However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

**Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**Matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.

**Directors' responsibilities**

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the group and parent 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 they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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**AMG SUPERALLOYS UK LIMITED**


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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AMG SUPERALLOYS UK LIMITED**

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**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

  
Claire Gallimore (Senior statutory auditor)

for and on behalf of

**KPMG LLP**

Chartered Accountants

1 Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA

26 September 2019

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**AMG SUPERALLOYS UK LIMITED**

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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	Note	2018 \$000	2017 \$000
<b>CONTINUING OPERATIONS</b>			
Revenue	2	168,376	140,743
Cost of sales		(140,896)	(124,035)
<b>GROSS PROFIT</b>		<u>27,480</u>	<u>16,708</u>
Administrative expenses		(5,170)	(8,151)
<b>OPERATING PROFIT</b>		<u>22,310</u>	<u>8,557</u>
Finance income	4	2,455	1,602
Finance expense	4	(604)	(490)
<b>PROFIT BEFORE TAX</b>	5	<u>24,161</u>	<u>9,669</u>
Tax expense	6	(4,242)	(2,297)
<b>PROFIT FOR THE YEAR</b>		<u>19,919</u>	<u>7,372</u>
<b>Profit for the year attributable to:</b>			
Owners of the parent		<u>19,919</u>	<u>7,372</u>
		<u>19,919</u>	<u>7,372</u>

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**AMG SUPERALLOYS UK LIMITED**

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**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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		<b>2018 \$000</b>	<b>2017 \$000</b>
<b>Profit for the year</b>		19,919	7,372
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial (losses)/ gains	23	(5,343)	2,291
Tax relating to items that will not be reclassified	6	997	(477)
		<u>(4,346)</u>	<u>1,814</u>
<b>Items that will or may be reclassified to profit or loss:</b>			
Derivatives	21	(1,902)	1,867
Current tax relating to fair value on derivative financial instruments	6	141	(91)
Deferred tax relating to fair value on derivative financial instruments	6	179	(237)
Share based payment expense	28	(1,046)	(193)
		<u>(2,628)</u>	<u>1,346</u>
<b>Other comprehensive income for the year, net of tax</b>		<u>(6,974)</u>	<u>3,160</u>
<b>Total comprehensive income</b>		<u><u>12,945</u></u>	<u><u>10,532</u></u>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		12,945	10,532
		<u><u>12,945</u></u>	<u><u>10,532</u></u>

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**AMG SUPERALLOYS UK LIMITED**

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

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	Note	2018 \$000	2017 \$000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Goodwill	9	1,510	1,510
Intangible assets	10	548	403
Property, plant and equipment	11	12,680	11,528
Deferred tax	22	1,377	406
		<hr/>	<hr/>
		16,115	13,847
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories	13	19,477	11,445
Trade and other receivables	14	110,356	95,943
Cash and cash equivalents	15	3,840	2,333
		<hr/>	<hr/>
		133,673	109,721
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<hr/> <b>149,788</b> <hr/>	<hr/> <b>123,568</b> <hr/>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	16	30,698	30,698
Capital redemption reserve	17	25,000	25,000
Share based payment reserve	17	2,174	3,220
Accumulated other comprehensive income	17	(17,722)	(11,794)
Retained earnings	17	53,673	34,014
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<hr/> <b>93,823</b> <hr/>	<hr/> <b>81,138</b> <hr/>



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**AMG SUPERALLOYS UK LIMITED**

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**AS AT 31 DECEMBER 2018**

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	Note	2018 \$000	2017 \$000
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	18	48	80
Pension liability	23	6,768	4,273
Deferred tax	22	535	653
		<hr/> 7,351	<hr/> 5,006
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	46,814	36,525
Corporation tax	19	1,800	899
		<hr/> 48,614	<hr/> 37,424
<b>TOTAL LIABILITIES</b>		<hr/> 55,965	<hr/> 42,430
<b>TOTAL EQUITY AND LIABILITIES</b>		<hr/> <hr/> 149,788	<hr/> <hr/> 123,568

The financial statements were approved by the Board of Directors on 25 September 2019 and were signed on its behalf by:

  
.....  
K Lawson  
Director

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**AMG SUPERALLOYS UK LIMITED**

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**COMPANY STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

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	Note	2018 \$000	2017 \$000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Goodwill	9	1,510	1,510
Intangible assets	10	532	386
Property, plant and equipment	11	10,017	8,878
Investments	12	2,219	2,219
Deferred tax	22	1,324	364
		<hr/>	<hr/>
		15,602	13,357
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories	13	17,933	9,750
Trade and other receivables	14	104,255	91,194
Cash and cash equivalents	15	3,396	1,794
		<hr/>	<hr/>
		125,584	102,738
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<hr/> <b>141,186</b> <hr/>	<hr/> <b>116,095</b> <hr/>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	16	30,698	30,698
Capital redemption reserve	17	25,000	25,000
Share based payment reserve	17	2,174	3,220
Accumulated other comprehensive income	17	(17,464)	(11,596)
Retained earnings	17	46,313	27,864
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<hr/> <b>86,721</b> <hr/>	<hr/> <b>75,186</b> <hr/>

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**AMG SUPERALLOYS UK LIMITED**

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**COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**AS AT 31 DECEMBER 2018**

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	Note	2018 \$000	2017 \$000
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Pension liability	23	6,458	3,988
Deferred tax	22	434	525
		<hr/> 6,892	<hr/> 4,513
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	46,532	35,795
Corporation tax	19	1,041	601
		<hr/> 47,573	<hr/> 36,396
<b>TOTAL LIABILITIES</b>		<hr/> 54,465	<hr/> 40,909
<b>TOTAL EQUITY AND LIABILITIES</b>		<hr/> 141,185	<hr/> 116,095
		<hr/>	<hr/>
<b>PROFIT FOR THE YEAR</b>		<hr/> 18,709	<hr/> 4,991

The financial statements were approved by the Board of Directors on 25 September 2019 and were signed on its behalf by:

  
.....  
K Lawson  
Director

AMG SUPERALLOYS UK LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER 2018

	Share capital	Capital redemption reserve	Share based payment reserve	Accumulated other comprehensive income	Retained earnings	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>At 1 January 2017</b>	30,698	25,000	3,413	(15,147)	26,642	70,606
<b>Comprehensive income for the year</b>						
Profit for the year	-	-	-	-	7,372	7,372
Actuarial gains on defined benefit schemes	-	-	-	2,291	-	2,291
Fair value movements on derivative financial instruments	-	-	-	1,867	-	1,867
Tax effect of amounts in other comprehensive income	-	-	-	(805)	-	(805)
Share based payment expense	-	-	(193)	-	-	(193)
<b>Total comprehensive income</b>	-	-	(193)	3,353	7,372	10,532
<b>At 31 December 2017</b>	30,698	25,000	3,220	(11,794)	34,014	81,138
<b>At 1 January 2018</b>	30,698	25,000	3,220	(11,794)	34,014	81,138
<b>Comprehensive income for the year</b>						
Profit in the year	-	-	-	-	19,919	19,919
Actuarial losses on defined benefit schemes	-	-	-	(5,343)	-	(5,343)
Fair value movements on derivative financial instruments	-	-	-	(1,902)	-	(1,902)
Tax effect of amounts in other comprehensive income	-	-	-	1,317	-	1,317
Share based payment expenses	-	-	(1,046)	-	-	(1,046)
<b>Total comprehensive income</b>	-	-	(1,046)	(5,928)	19,919	12,945
Dividends	-	-	-	-	(260)	(260)
<b>At 31 December 2018</b>	30,698	25,000	2,174	(17,722)	53,673	93,823

**AMG SUPERALLOYS UK LIMITED**

**COMPANY STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER 2018**

	Share capital	Capital redemption reserve	Share based payment reserve	Accumulated other comprehensive income	Retained earnings	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>At 1 January 2017</b>	30,698	25,000	3,413	(14,876)	22,873	67,108
<b>Comprehensive income for the year</b>						
Profit for the year	-	-	-	-	4,991	4,991
Actuarial gains on defined benefit schemes	-	-	-	2,202	-	2,202
Fair value movements on derivative financial instruments	-	-	-	1,867	-	1,867
Tax effect of amounts in other comprehensive income	-	-	-	(789)	-	(789)
Share based payment expense	-	-	(193)	-	-	(193)
<b>Total comprehensive income</b>	-	-	(193)	3,280	4,991	8,078
<b>At 31 December 2017</b>	30,698	25,000	3,220	(11,596)	27,864	75,186
<b>At 1 January 2018</b>	30,698	25,000	3,220	(11,596)	27,864	75,186
<b>Comprehensive income for the year</b>						
Profit in the year	-	-	-	-	18,709	18,709
Actuarial losses on defined benefit schemes	-	-	-	(5,269)	-	(5,269)
Fair value movements on derivative financial instruments	-	-	-	(1,902)	-	(1,902)
Tax effect of amounts in other comprehensive income	-	-	-	1,303	-	1,303
Share based payment expenses	-	-	(1,046)	-	-	(1,046)
<b>Total comprehensive income</b>	-	-	(1,046)	(5,868)	18,709	11,795
Dividends	-	-	-	-	(260)	(260)
<b>At 31 December 2018</b>	30,698	25,000	2,174	(17,464)	46,313	86,721

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**AMG SUPERALLOYS UK LIMITED**

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**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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	<b>2018 \$000</b>	<b>2017 \$000</b>
<b>Cash flows from operating activities</b>		
Profit for the year	19,919	7,372
<b>Adjustments for</b>		
Depreciation of property, plant and equipment	2,085	1,702
Amortisation of intangible fixed assets	26	26
Finance income	(2,455)	(1,602)
Finance expense	604	490
Loss/(gain) on sale of property, plant and equipment	230	(25)
Pension credit	(2,765)	(854)
Performance stock unit expense	185	203
Income tax expense	4,242	2,297
	<hr/> 22,071	<hr/> 9,609
<b>Movements in working capital:</b>		
Increase in trade and other receivables	(12,549)	(4,465)
(Increase)/decrease in inventories	(8,032)	71
Increase/(decrease) in trade and other payables	6,569	(860)
	<hr/> 8,059	<hr/> 4,355
<b>Cash generated from operations</b>		
Income taxes paid	(3,112)	(1,672)
Interest paid	(253)	(143)
	<hr/> 4,694	<hr/> 2,540
<b>Net cash from operating activities</b>		
<b>Cash flows used in investing activities</b>		
Purchases of property, plant and equipment	(3,435)	(2,215)
Sale of property, plant and equipment	(32)	55
Purchase of intangibles	(171)	-
	<hr/> (3,638)	<hr/> (2,160)
<b>Net cash used in investing activities</b>		

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**AMG SUPERALLOYS UK LIMITED**

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**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
<b>Cash flows from financing activities</b>		
Dividends paid to the holders of the parent	(260)	-
Cash paid to cash pooling arrangement	(1,864)	(650)
Interest received	2,575	1,382
<b>Net cash from financing activities</b>	<b>451</b>	<b>732</b>
<b>Net cash increase in cash and cash equivalents</b>	<b>1,507</b>	<b>1,112</b>
Cash and cash equivalents at the beginning of year	2,333	1,221
<b>Cash and cash equivalents at the end of the year</b>	<b>3,840</b>	<b>2,333</b>

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**AMG SUPERALLOYS UK LIMITED**

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**COMPANY STATEMENT OF CASH FLOWS  
AS AT 31 DECEMBER 2018**

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	2018 \$000	2017 \$000
<b>Cash flows from operating activities</b>		
Profit for the year	18,709	4,991
<b>Adjustments for</b>		
Depreciation of property, plant and equipment	1,668	1,330
Amortisation of intangible fixed assets	25	25
Net finance income	(2,007)	(1,212)
Loss/ (gain) on sales of property, plant and equipment	162	(40)
Pension credit	(2,724)	(553)
Performance stock unit expense	185	289
Income tax expense	3,495	1,722
	<hr/> 19,513	<hr/> 6,552
<b>Movements in working capital:</b>		
Increase in trade and other receivables	(12,639)	(3,243)
Increase in inventories	(8,183)	(360)
Increase in trade and other payables	7,496	1,576
	<hr/> 6,187	<hr/> 4,525
<b>Cash generated from operations</b>		
Income taxes paid	(2,803)	(819)
Interest paid	(200)	(118)
	<hr/> 3,184	<hr/> 3,588
<b>Net cash from operating activities</b>		
<b>Cash flows used in investing activities</b>		
Purchase of property, plant and equipment	(2,984)	(1,883)
Sales of property, plant and equipment	15	53
Purchase of intangible fixed asset	(171)	-
	<hr/> (3,140)	<hr/> (1,830)
<b>Net cash used in investing activities</b>		
<b>Cash flows from/ (used in) financing activities</b>		
Dividend paid	(260)	-
Cash paid to cash pooling arrangement	(422)	(2,166)
Interest received	2,240	1,447
	<hr/> 1,558	<hr/> (719)
<b>Net cash from/ (used in) financing activities</b>		
	<hr/> 1,602	<hr/> 1,039
<b>Net cash increase in cash and cash equivalents</b>		
Cash and cash equivalents at the beginning of year	1,794	755
	<hr/> 3,396	<hr/> 1,794
<b>Cash and cash equivalents at the end of the year</b>		



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**1. Accounting policies**

**1.1 Basis of preparation**

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

The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments and liabilities for cash-settled share based payment arrangement which are measured at fair value and the defined benefit asset/ liability which is measured at fair value of the plan assets less the present value of the defined obligation.

**1.2 Going concern**

The Group's business activities, together with the factors likely to affect its future development and financial position have been set out in the Strategic Report. In addition, the Strategic Report also sets out the principal risks and uncertainties. A going concern assessment has been made by the directors with reference to the latest financial performance of the Group, 2019, 2020 and 2021 forecasts and available cash liquidity. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**1.3 Basis of consolidation**

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

**1.4 Revenue**

The Group's contracts for goods sold typically contain a single performance obligation. The timing of when a customer obtains control over goods sold varies depending on the individual terms of the sales agreement. In satisfying the Group's performance obligation to its customers, transfer of control typically occurs when title and risk of loss pass to the customer. In the case of export sales, control of the goods sold may pass when the product reaches a foreign port. Invoices are generally issued according to contractual terms and are usually payable within 30-90 days. The transaction price of goods sold is typically based on contractual terms or market pricing and is not subject to variable consideration.

IFRS 15 became effective for the Company on 1 January 2018. The impact of adopting IFRS 15 is discussed in detail in note 31. Prior to the adoption of IFRS 15, revenue was recognised upon transfer of the risks and rewards of ownership, and in accordance with terms of shipment using Incoterms 2010. Revenue represented amounts invoiced to customers excluding discounts, rebates, VAT and other sales taxes or duty. Transfer of risks and rewards usually occurs when title and risk of loss pass to the customer. In the case of export sales, title may not pass until the product reaches a foreign port.

Where consignment stock arrangements are in place, revenue is recognised upon withdrawal from consignment by the customer or, where relevant, on expiry of fixed contractual term.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**1. Accounting policies (continued)**

**1.5 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Development costs associated with the registration of substances relating to the Registration, Evaluation, Authorisation & Restriction of Chemicals (REACH) regime are capitalised as intangible assets as the expenditure is incurred. Costs include any testing and documentation costs, legal fees and registration costs associated with the registration of the substances.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

**1.6 Property, plant and equipment**

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

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

If there is a permanent diminution in value, the item is written down to its estimated recoverable amount. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation is charged in the statement of profit or loss on a straight-line basis over the estimated lives of each part of an item of property, plant and equipment. Land and construction in progress are not depreciated. The annual rates used are:

Freehold property	4%
Plant and machinery	10%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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1. Accounting policies (continued)

1.7 Leasing

Rentals under operating leases are charged to the statement of profit or loss on a straight line basis over the lease's term. There were no lease arrangements classified as finance leases as of 31 December 2018 (2017: none).

1.8 Non-derivative financial instruments

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

Trade and other receivables

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

Cash and cash equivalents

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

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

Trade and other payables

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

1.9 Derivative financial instrument

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

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

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

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while any ineffective portion is recognised immediately in the statement of profit or loss.

Amounts taken to other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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1. Accounting policies (continued)

1.10 Investments

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

1.11 Inventories

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

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

1.12 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the statement of financial position dates and any adjustment to tax payable in respect of previous periods.

Deferred taxation

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

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**1. Accounting policies (continued)**

**1.13 Sales tax**

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

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

**1.14 Employee benefit costs**

Defined contribution plan

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

Defined benefit plan

The Company and its subsidiary, AMG AlpoCo UK Limited, participate in the AMG UK Group 2006 Pension Plan ('2006 Pension Plan') which includes a defined benefit arrangement. The defined benefit arrangement closed on 31 May 2006 to all members.

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**1. Accounting policies (continued)**

**1.15 Foreign currencies**

These financial statements are presented in US Dollars, which is the Group's functional and presentation currency and all amounts are rounded to the nearest thousand dollars (\$000) except where otherwise indicated. The determination of functional currency is based on appropriate economic and management indicators.

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

At the statement of financial position date, monetary assets and liabilities denominated in foreign currencies are retranslated to dollars at the rate of exchange ruling at the statement of financial position date and the resultant exchange differences are recognised in the statement of profit or loss. The exchange rate as of 31 December 2018 was USD \$1 = £0.785.

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

**1.16 Research and development**

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

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

**1.17 Use of estimates and judgements**

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

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

More information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 30: Accounting estimates and judgements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**1. Accounting policies (continued)**

**1.18 Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the statement of profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to the statement of profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the statement of profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

**1.19 Finance income and costs**

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

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

**1.20 Impairment excluding inventories and deferred tax assets**

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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1. Accounting policies (continued)

1.21 Share-based payments

**Equity-settled transactions**

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

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

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

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

**Cash-settled transactions**

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

1.22 Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the Board of Directors.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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1. Accounting policies (continued)

1.23 Provisions

A provision is recognised in the statement of financial position when:

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

1.24 Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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**AMG SUPERALLOYS UK LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**2. Revenue**

IFRS 8 requires operating segments to be identified on the basis of the internal financial information reported to the Chief Operating Decision Maker ("CODM"). The Company's CODM is deemed to be the Managing Director, who is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. The CODM assesses profit performance using profit before taxation measured on a basis consistent with the disclosure in the Group accounts.

The Group reports on one reportable segment:  
The manufacture and merchandising of metallurgical products.

The following is an analysis of the Group's revenue for the year from continuing operations:

	<b>2018</b> <b>\$000</b>	<b>2017</b> <b>\$000</b>
Sale of goods	168,376	140,743
	<u>168,376</u>	<u>140,743</u>

Analysis of revenue by country of destination:

	<b>2018</b> <b>\$000</b>	<b>2017</b> <b>\$000</b>
United Kingdom	24,409	24,605
Rest of Europe	36,578	36,120
America	80,195	51,192
Asia	19,496	21,310
Africa	4,672	3,882
Australasia	3,026	3,634
	<u>168,376</u>	<u>140,743</u>

Timing of revenue recognition:

	<b>2018</b> <b>\$000</b>	<b>2017</b> <b>\$000</b>
Goods and services transferred at a point in time	168,376	140,743
	<u>168,376</u>	<u>140,743</u>

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**AMG SUPERALLOYS UK LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**3. Employees and directors**

	<b>Group 2018 \$000</b>	<b>Group 2017 \$000</b>	<b>Company 2018 \$000</b>	<b>Company 2017 \$000</b>
Wages and salaries	12,461	12,114	9,895	9,632
Social security costs	1,158	1,158	919	924
Other pension costs	(384)	1,730	(552)	1,487
	<u>13,235</u>	<u>15,002</u>	<u>10,262</u>	<u>12,043</u>

The average monthly number of employees during the year was as follows:

	<b>Group 2018</b>	<b>Group 2017</b>	<b>Company 2018</b>	<b>Company 2017</b>
Production	201	195	146	144
Sales and administration	42	39	39	36
	<u>243</u>	<u>234</u>	<u>185</u>	<u>180</u>

**Directors**

	<b>2018 \$000</b>	<b>2017 \$000</b>
Aggregate emoluments	1,656	1,235
Company contributions paid to defined contribution scheme	<u>54</u>	<u>53</u>

There are 2 directors accruing benefits under a defined contribution scheme (31 December 2017: 2). K Lawson and L M Scaife are considered to have performed qualifying services and their remuneration is disclosed above as total remuneration for services to the AMG Advanced Metallurgical Group N.V. group. The directors do not believe that it is practicable to apportion this amount between services as directors of the Company and their services as directors of the holding and fellow subsidiary companies. These directors are being paid by AMG Superalloys UK Limited.

E E Jackson, J M Dunckel and R Shea are not considered to have performed qualifying services for the Group.

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

	<b>2018 \$000</b>	<b>2017 \$000</b>
Aggregate emoluments	1,122	785
Company contributions paid to defined contribution scheme	<u>34</u>	<u>35</u>

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**AMG SUPERALLOYS UK LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**4. Finance income and expense****Recognised in statement of profit or loss**

	<b>2018 \$000</b>	<b>2017 \$000</b>
<b>Finance income</b>		
Interest on group cash pooling arrangements	2,396	1,549
Interest income on pension scheme assets	59	53
<b>Total finance income</b>	<b>2,455</b>	<b>1,602</b>
<b>Finance expense</b>		
Bank interest payable	253	143
Group interest	210	120
Interest on pension scheme liabilities	141	227
<b>Total finance expense</b>	<b>604</b>	<b>490</b>
<b>Net finance income recognised in profit or loss</b>	<b>1,851</b>	<b>1,112</b>

**5. Profit before tax**

	<b>2018 \$000</b>	<b>2017 \$000</b>
Cost of inventories recognised as expense	100,835	86,473
Depreciation	2,085	1,702
Amortisation	26	26
Loss/ (profit) of fixed assets	230	(25)
Auditor's remuneration - Fees payable to the Company's auditors and their associates for the audit of the Company's financial statements	103	137

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**AMG SUPERALLOYS UK LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**6. Tax expense****Income tax recognised in profit or loss**

	<b>2018 \$000</b>	<b>2017 \$000</b>
<b>Current tax</b>		
Current tax on profits for the year	4,171	1,707
Adjustments in respect of prior years	(16)	144
<b>Total current tax</b>	<u>4,155</u>	<u>1,851</u>
<b>Deferred tax expense</b>		
Origination and reversal of timing differences	30	169
Adjustments in respect of prior years	57	277
<b>Total deferred tax</b>	<u>87</u>	<u>446</u>
	<u>4,242</u>	<u>2,297</u>
<b>Total tax expense</b>		
Tax expense excluding tax on sale of discontinued operation and share of tax of equity accounted associates and joint ventures	4,242	2,297
	<u>4,242</u>	<u>2,297</u>

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	<b>2018 \$000</b>	<b>2017 \$000</b>
Profit for the year	19,919	7,372
Income tax expense (including income tax on associate, joint venture and discontinued operation)	4,242	2,297
<b>Profit before income taxes</b>	<u>24,161</u>	<u>9,669</u>
Tax using the Company's domestic tax rate of 19% (2017:19.25%)	4,591	1,861
Expenses not deductible for tax purposes, other than goodwill, amortisation and impairment	1	(11)
Adjustments to tax charge in respect of prior periods	41	421
Rate adjustment for deferred tax	(391)	26
<b>Total tax expense</b>	<u>4,242</u>	<u>2,297</u>

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**AMG SUPERALLOYS UK LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**6. Tax expense (continued)****Income tax recognised in other comprehensive income**

	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current tax</b>		
Fair value remeasurement of hedging instruments entered into for cash flow hedges	141	(91)
	<u>141</u>	<u>(91)</u>
<b>Deferred tax</b>		
Arising on income and expenses recognised in other comprehensive income		
Fair value remeasurement of hedging instruments entered into for cash flow hedges	179	(237)
Remeasurement of defined benefit obligation	997	(477)
	<u>1,176</u>	<u>(714)</u>
	<u><u>1,317</u></u>	<u><u>(805)</u></u>

**7. Profit of parent company**

As permitted by Section 408 of the Companies Act 2006, the statement of profit or loss of the parent Company, AMG Superalloys UK Limited, is not presented as part of these financial statements. The parent Company's profit for the financial year was \$16,709,000 before dividend income of \$2,000,000 (2017: profit \$4,991,000 before dividend income of \$nil).

**8. Dividends**

In February 2018, the directors recommended and paid a final dividend in respect of the year ended 31 December 2017 of \$259,664. The directors recommended no final dividend be paid in respect of the year ended 31 December 2018.

No interim dividend has been paid in the year ended 31 December 2018 (2017: \$nil).

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**AMG SUPERALLOYS UK LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**9. Goodwill****Group and Company**

	<b>2018 \$000</b>	<b>2017 \$000</b>
Net book value	1,510	1,510
	<u>1,510</u>	<u>1,510</u>
	<b>2018 \$000</b>	<b>2017 \$000</b>
<b>Cost</b>		
At 1 January	1,510	1,510
<b>At 31 December</b>	<u>1,510</u>	<u>1,510</u>
<b>Accumulated impairment</b>		
At 1 January	-	-
<b>At 31 December</b>	<u>-</u>	<u>-</u>

Goodwill is allocated to the Group's cash generating unit as follows:

**AMG Superalloys UK Limited**

The goodwill is allocated at a company level as the benefit derived impacts the business as a whole and is tested for impairment annually. For the impairment test for AMG Superalloys UK's cash-generating units, the recoverable amounts are the value in use. The value in use was determined using the discounted cash flow method. In 2018 and 2017, the carrying amounts of the AMG Superalloys UK's units were determined to be lower than their recoverable amounts and no impairment losses were recognised.

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**AMG SUPERALLOYS UK LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**10. Intangible assets****Group**

	<b>REACH costs \$000</b>
<b>Cost</b>	
At 1 January 2017	530
<b>At 31 December 2017</b>	<b>530</b>
Additions	171
<b>At 31 December 2018</b>	<b>701</b>
	<b>REACH costs \$000</b>
<b>Accumulated amortisation and impairment</b>	
At 1 January 2017	101
Charge for the year	26
<b>At 31 December 2017</b>	<b>127</b>
Charge for the year	26
<b>At 31 December 2018</b>	<b>153</b>
<b>Net book value</b>	
At 1 January 2017	429
At 31 December 2017	403
At 31 December 2018	548

Capitalised REACH costs relate to Registration, Evaluation, Authorisation & Restriction of Chemicals. The costs are being amortised over 20 years.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**10. Intangibles (continued)****Company**

	<b>REACH costs \$000</b>
<b>Cost</b>	
At 1 January 2017	511
At 31 December 2017	511
Additions	171
At 31 December 2018	682
	<b>REACH costs \$000</b>
<b>Accumulated amortisation and impairment</b>	
At 1 January 2017	100
Charge for the year	25
At 31 December 2017	125
Charge for the year	25
At 31 December 2018	150
<b>Net book value</b>	
At 1 January 2017	411
At 31 December 2017	386
At 31 December 2018	532

Capitalised REACH costs relate to Registration, Evaluation, Authorisation & Restriction of Chemicals. The costs are being amortised over 20 years.

**AMG SUPERALLOYS UK LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**11. Property, plant and equipment**

**Group**

	<b>Land and buildings \$000</b>	<b>Plant and machinery \$000</b>	<b>Total \$000</b>
<b>Cost</b>			
At 1 January 2017	18,540	52,900	71,440
Additions	-	2,215	2,215
Disposals	-	(1,474)	(1,474)
Transfers between classes	(134)	134	-
<b>At 31 December 2017</b>	<b>18,406</b>	<b>53,775</b>	<b>72,181</b>
Additions	-	3,435	3,435
Disposals	-	(968)	(968)
<b>At 31 December 2018</b>	<b>18,406</b>	<b>56,242</b>	<b>74,648</b>
	<b>Land and buildings \$000</b>	<b>Plant and machinery \$000</b>	<b>Total \$000</b>
<b>Accumulated depreciation and impairment</b>			
At 1 January 2017	13,864	46,531	60,395
Charge for the year	39	1,663	1,702
Disposals	-	(1,444)	(1,444)
<b>At 31 December 2017</b>	<b>13,903</b>	<b>46,750</b>	<b>60,653</b>
Charge for the year	345	1,740	2,085
Disposals	-	(770)	(770)
Transfers between classes	315	(315)	-
<b>At 31 December 2018</b>	<b>14,563</b>	<b>47,405</b>	<b>61,968</b>
<b>Net book value</b>			
At 1 January 2017	4,676	6,369	11,045
At 31 December 2017	4,503	7,025	11,528
At 31 December 2018	3,843	8,837	12,680

The Group did not have any borrowing costs to capitalise during the year ended 31 December 2018 (2017: \$nil).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**11. Property, plant and equipment (continued)**

**Company**

	<b>Land and buildings \$000</b>	<b>Plant and machinery \$000</b>	<b>Total \$000</b>
<b>Cost</b>			
At 1 January 2017	14,742	39,403	54,145
Additions	-	1,883	1,883
Disposals	-	(1,453)	(1,453)
At 31 December 2017	14,742	39,833	54,575
Additions	-	2,984	2,984
Disposals	-	(901)	(901)
At 31 December 2018	14,742	41,916	56,658
<b>Accumulated depreciation and impairment</b>			
At 1 January 2017	11,144	34,663	45,807
Charge for the year	-	1,330	1,330
Disposals	-	(1,440)	(1,440)
At 31 December 2017	11,144	34,553	45,697
Charge for the year	306	1,362	1,668
Disposals	-	(724)	(724)
Transfer	315	(315)	-
At 31 December 2018	11,765	34,876	46,641
<b>Net book value</b>			
At 1 January 2017	3,598	4,740	8,338
At 31 December 2017	3,598	5,280	8,878
At 31 December 2018	2,977	7,040	10,017

The Company did not have any borrowing costs to capitalise during the year ended 31 December 2018 (31 December 2018: \$nil).

**Securities**

At 31 December 2018, the Group's property, plant and equipment are being pledged against financial loans and revolving credit facility taken out by AMG Advanced Metallurgical Group N.V., the Group's ultimate parent undertaking. Please refer to note 25.

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**AMG SUPERALLOYS UK LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**12. Investments**

The Group and Company's investments at the statement of financial position date include the following:

**AMG Alpoco UK Limited**

Country of incorporation: England and Wales

Registered address: c/o AMG Superalloys UK Limited, Fullerton Road, Rotherham, S60 1DL

Nature of business: Manufacture of aluminium powder

Class of shares: Ordinary

% holding: 100

**AMG UK Group Pension Trustee Limited**

Country of incorporation: England and Wales

Registered address: c/o AMG Superalloys UK Limited, Fullerton Road, Rotherham, S60 1DL

Nature of business: Pension trustee

Class of shares: Ordinary

% holding: 100

**13. Inventories**

	<b>Group 2018 \$000</b>	<b>Group 2017 \$000</b>	<b>Company 2018 \$000</b>	<b>Company 2017 \$000</b>
Raw materials	7,533	4,686	7,187	4,138
Finished goods	10,648	6,051	9,450	4,904
Merchanting inventory	1,296	708	1,296	708
	<u>19,477</u>	<u>11,445</u>	<u>17,933</u>	<u>9,750</u>

The Group write down of inventories to net realisable value amounted to \$725,676 (2017: \$569,165) and the provision charged for slow-moving inventories amounted to \$1,215,208 (2017: \$1,293,845).

The Company write down of inventories to net realisable value amounted to \$632,652 (2017: \$451,443) and the provision charged for slow-moving inventories amounted to \$1,200,356 (2017: \$1,192,360).

**Securities**

At 31 December 2018, the Group's inventories are being pledged against financing loans and revolving credit facility taken out by AMG Advanced Metallurgical Group N.V., the Group's ultimate parent undertaking. Please refer to note 25.

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**AMG SUPERALLOYS UK LIMITED**

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**14. Trade and other receivables**

	<b>Group 2018 \$000</b>	<b>Group 2017 \$000</b>	<b>Company 2018 \$000</b>	<b>Company 2017 \$000</b>
<b>Current:</b>				
Trade receivables	8,916	9,903	6,984	7,909
Amounts receivable in respect of cash pooling arrangements	62,042	60,178	59,173	58,751
Receivables from affiliates	35,434	21,843	35,601	21,514
Prepayments and accrued income	3,793	2,964	2,326	1,965
Derivatives designated as hedging instruments	171	1,055	171	1,055
	<u>110,356</u>	<u>95,943</u>	<u>104,255</u>	<u>91,194</u>

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

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

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

**Group**

	<b>Gross 2018 \$000</b>	<b>Impairment 2018 \$000</b>	<b>Gross 2017 \$000</b>	<b>Impairment 2017 \$000</b>
Current - not yet due	7,725	-	6,334	-
0 - 30 days	1,169	-	3,487	-
31 - 60 days	27	-	53	-
More than 60 days	(3)	2	48	19
	<u>8,918</u>	<u>2</u>	<u>9,922</u>	<u>19</u>

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**AMG SUPERALLOYS UK LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**14. Trade and other receivables (continued)**

**Company**

	<b>Gross 2018 \$000</b>	<b>Impairment 2018 \$000</b>	<b>Gross 2017 \$000</b>	<b>Impairment 2017 \$000</b>
Current - not yet due	5,671	-	5,181	-
0 - 30 days	1,296	-	2,646	-
31 - 60 days	23	-	53	-
More than 60 days	(4)	2	48	19
	<u>6,986</u>	<u>2</u>	<u>7,928</u>	<u>19</u>

The movements in the provision for impairment of receivables is as follows:

	<b>Group 2018 \$000</b>	<b>Group 2017 \$000</b>	<b>Company 2018 \$000</b>	<b>Company 2017 \$000</b>
At 1 January	19	13	19	13
Charge for the year	2	6	2	6
Amounts recovered	(19)	-	(19)	-
	<u>2</u>	<u>19</u>	<u>2</u>	<u>19</u>

**Factoring of Receivables**

As of 31 December 2018, the Group had total receivables factored and outstanding of \$8,387,000 (2017: \$6,621,000). The Group sold receivables of \$62,762,000 (2017: \$38,403,000) through the year and incurred cost of \$281,000 (2017: \$262,000) in conjunction with the sales of these receivables of which \$174,000 (2017: \$79,000) were included in finance costs and \$107,000 (2017: \$183,000) were included in revenue. Under the facility, the Group continues to collect the receivables from the customer but retains no interest or risk in the receivables. Therefore, the Group has derecognised the receivables.

As of 31 December 2018, the Company had total receivables factored and outstanding of \$5,698,000 (2017: \$4,550,000). The Company sold receivables of \$37,584,000 (2017: \$27,370,000) through the year and incurred cost of \$182,000 (2017: \$174,000) in conjunction with the sales of these receivables of which \$120,000 (2017: \$54,000) were included in finance costs and \$62,000 (2017: \$120,000) were included in revenue. Under the facility, the Company continues to collect the receivables from the customer but retains no interest or risk in the receivables. Therefore, the Company has derecognised the receivables.

**Securities**

At 31 December 2018, the Group's receivables are being pledged against financing loans and revolving credit facility taken out by AMG Advanced Metallurgical Group N.V., the Group's ultimate parent undertaking. Please refer to note 25.

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**AMG SUPERALLOYS UK LIMITED**

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**15. Cash and cash equivalents**

	<b>Group 2018 \$000</b>	<b>Group 2017 \$000</b>	<b>Company 2018 \$000</b>	<b>Company 2017 \$000</b>
Bank and cash balances	3,840	2,333	3,396	1,794

At 31 December 2018, the Group and the Company's borrowing facilities were \$nil (2017: \$nil).

At 31 December 2018, the Group and the Company had undrawn facilities on bank overdraft totaling £100 (2017: £100).

**Securities**

At 31 December 2018, the Group's cash and cash equivalents are being pledged against financing loans and revolving credit facility taken out by AMG Advanced Metallurgical Group N.V., the Group's ultimate parent undertaking. Please refer to note 25.

**16. Share capital****Authorised**

	<b>2018 Number</b>	<b>2018 \$000</b>	<b>2017 Number</b>	<b>2017 \$000</b>
<b>Shares treated as equity</b>				
Ordinary shares of £1.00 each	16,000,000	30,698	16,000,000	30,698
	<u>16,000,000</u>	<u>30,698</u>	<u>16,000,000</u>	<u>30,698</u>

**Issued and fully paid**

	<b>2018 Number</b>	<b>2018 \$000</b>	<b>2017 Number</b>	<b>2017 \$000</b>
<b>Ordinary shares of £1.00 each</b>				
At 1 January and 31 December	<u>16,000,000</u>	<u>30,698</u>	<u>16,000,000</u>	<u>30,698</u>

The holders of the ordinary shares are entitled to one vote per share in any circumstances. Each share is entitled pari passu to dividend payments or any other distribution.

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**17. Reserves**

**Capital redemption reserve**

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

**Accumulated other comprehensive income**

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

**Share based payment reserve**

The share based payment reserve comprises amounts recognised in respect of employee services in relation to the AMG Option plan, as disclosed in note 28.

**18. Trade and other payables**

	<b>Group 2018 \$000</b>	<b>Group 2017 \$000</b>	<b>Company 2018 \$000</b>	<b>Company 2017 \$000</b>
<b>Current:</b>				
Trade payables	36,444	29,858	23,026	16,810
Trade payables subject to interest	5,365	2,372	5,365	2,372
Payable to affiliates	710	1,038	14,040	13,605
Social security and other taxes	398	387	398	387
Accruals	2,457	2,412	2,295	2,195
Derivatives designated as hedging instruments	1,408	426	1,408	426
Deferred government grants	32	32	-	-
	<u>46,814</u>	<u>36,525</u>	<u>46,532</u>	<u>35,795</u>
<b>Non current:</b>				
Deferred government grants	48	80	-	-
<b>Aggregate amounts</b>	<u>46,862</u>	<u>36,605</u>	<u>46,532</u>	<u>35,795</u>

Trade payables are non-interest bearing and are normally settled on 30 to 95 day terms.

Trade payables subject to interest bear interest at 195 base points above USD LIBOR rate to further extend terms by a maximum of 93 days.

For related party transactions refer to note 26.



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**AMG SUPERALLOYS UK LIMITED**

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**18. Trade and other payables (continued)****Government grants**

In 2011 the Company's subsidiary received \$133,000 from the Welsh Assembly Government in relation to a capital project. A final receipt of \$126,000 was received during 2013 relating to the same project. The grant is being deferred over the expected remaining useful life of the asset at the time of receipt of the grant of 9 years.

Amounts totaling \$32,119 (2017: \$32,119) were credited to the statement of profit or loss during the year and included in cost of sales.

**19. Tax**

The corporation tax balance recognised in the statement of financial position is detailed below:

	<b>Group 2018 \$000</b>	<b>Group 2017 \$000</b>	<b>Company 2018 \$000</b>	<b>Company 2017 \$000</b>
Corporation tax payable	1,800	899	1,041	601

**20. Leases****Operating leases - lessee**

The total future value of minimum lease payments is due as follows:

	<b>2018 \$000</b>	<b>2017 \$000</b>
Not later than one year	12	25
Between one year and five years	5	21
	<u>17</u>	<u>46</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**21. Financial instruments**

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

**Trade and other receivables**

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

**Trade and other payables**

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

**Cash and cash equivalents**

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

**Derivative financial instruments**

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

**Financial instruments by category**

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

**Group**

	Carrying value 2018 \$000	Fair value 2018 \$000	Carrying value 2017 \$000	Fair value 2017 \$000
<b>Current financial assets</b>				
Trade and other receivables	110,185	110,185	94,888	94,888
Cash and cash equivalents	3,840	3,840	2,333	2,333
Derivative financial instruments	171	171	1,055	1,055
<b>Total financial assets</b>	<b>114,196</b>	<b>114,196</b>	<b>98,276</b>	<b>98,276</b>
<b>Current financial liabilities</b>				
Trade and other payables	45,406	45,406	36,099	36,099
Derivative financial instruments	1,408	1,408	426	426
<b>Total financial liabilities</b>	<b>46,814</b>	<b>46,814</b>	<b>36,525</b>	<b>36,525</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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21. Financial instruments (continued)

Company	Carrying value 2018 \$000	Fair value 2018 \$000	Carrying value 2017 \$000	Fair value 2017 \$000
<b>Current financial assets</b>				
Trade and other receivables	104,084	104,084	90,139	90,139
Bank and cash balances	3,396	3,396	1,794	1,794
Derivative financial instruments	171	171	1,055	1,055
<b>Total financial assets</b>	<b>107,651</b>	<b>107,651</b>	<b>92,988</b>	<b>92,988</b>
<b>Current financial liabilities</b>				
Trade and other payables	45,124	45,124	35,369	35,369
Derivative financial instruments	1,408	1,408	426	426
<b>Total financial liabilities</b>	<b>46,532</b>	<b>46,532</b>	<b>35,795</b>	<b>35,795</b>

**Valuation of financial instruments - Fair value hierarchy**

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

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

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

31 December 2018	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<b>Financial assets</b>				
Forward contracts - hedged	-	171	-	171
<b>Financial liabilities</b>				
Forward contracts - hedged	-	1,408	-	1,408
<b>31 December 2017</b>	<b>Level 1 \$000</b>	<b>Level 2 \$000</b>	<b>Level 3 \$000</b>	<b>Total \$000</b>
<b>Financial assets</b>				
Forward contracts - hedged	-	1,055	-	1,055
<b>Financial liabilities</b>				
Forward contracts - hedged	-	426	-	426

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21. Financial instruments (continued)

During the year ended 31 December 2018, and 2017, there were no transfers between level 1, level 2 and level 3 fair value measurements.

**Commodity forward contracts**

The Group is exposed to volatility in the prices of raw materials used in its products and uses commodity forward contracts to minimise these exposures. Such contracts generally mature within 12 months with any effect to the statement of profit or loss recognised in this period. Commodity forward contracts have been designated as cash flow hedges.

The open commodity forward contracts as at 31 December 2018 are as follows:

	Metric tonnes	Average price per tonne \$	Fair value assets \$000	Fair value liabilities \$000
<b>US dollar denominated contracts to purchase commodities:</b>				
Aluminium forwards	3,075	1,971	-	(313)

The open commodity forward contracts as at 31 December 2017 are as follows:

	Metric tonnes	Average price per tonne \$	Fair value assets \$000	Fair value liabilities \$000
<b>US dollar denominated contracts to purchase commodities:</b>				
Aluminium forwards	3,575	2,080	583	(5)

The amount of commodity cash flow hedges included in other comprehensive loss for Group and Company are as follows:

	Group 2018 \$000	Group 2017 \$000	Company 2018 \$000	Company 2017 \$000
Commodity cash flow hedges	(891)	527	(891)	527
Tax effect of commodity cash flow hedges	148	(89)	148	(89)
Other comprehensive (loss)/ gain	(743)	438	(743)	438

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**AMG SUPERALLOYS UK LIMITED**

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**21. Financial instruments (continued)**

The charge/ (credit) to the statement of profit or loss as cost of sales for the period relating to commodity cash flow hedges for the Group and Company are as follows:

	<b>Group 2018 \$000</b>	<b>Group 2017 \$000</b>	<b>Company 2018 \$000</b>	<b>Company 2017 \$000</b>
Commodity cash flow hedges	46	(491)	46	(491)

**Foreign currency forward contracts**

The Group uses foreign exchange forward contracts to hedge a significant portion of its estimated foreign currency exposure in respect of forecasted sales and purchases that will be received or paid in different currencies. These contracts are negotiated to match the terms of the commitments and generally mature with 12 months with any effect to the statement of profit or loss being recognised in this period. Foreign exchange contracts have been designated as cash flow hedges.

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

	<b>Notional amount</b>	<b>Average contract rate</b>	<b>Fair value assets \$000</b>	<b>Fair value liabilities \$000</b>
Cash flow hedges:				
Euro (versus USD) 2018	€10.385 million	1.167	163	(46)
Euro (versus USD) 2017	€14.055 million	1.180	-	(394)

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

	<b>Notional amount</b>	<b>Average contract rate</b>	<b>Fair value assets \$000</b>	<b>Fair value liabilities \$000</b>
Cash flow hedges:				
GBP (versus USD) 2018	£16.70 million	1.348	8	(1,049)
GBP (versus USD) 2017	£14.45 million	1.327	472	(27)

The amount of currency cash flow hedges included in other comprehensive income for the Group and Company was as follows:

	<b>Group 2018 \$000</b>	<b>Group 2017 \$000</b>	<b>Company 2018 \$000</b>	<b>Company 2017 \$000</b>
Currency cash flow hedges	(1,011)	(1,340)	(1,011)	1,340
Tax effect of currency cash flow hedges	172	(239)	172	(239)
Other comprehensive (loss)/ gain	(839)	(1,579)	(839)	1,101

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**AMG SUPERALLOYS UK LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**21. Financial instruments (continued)**

The charge/ (credit) to the statement of profit and loss as cost of sales for the period relating to currency cash flow hedges for the Group and Company was as follows:

	<b>Group 2018 \$000</b>	<b>Group 2017 \$000</b>	<b>Company 2018 \$000</b>	<b>Company 2017 \$000</b>
Currency cash flow hedges	(314)	1,155	(314)	1,155

**Hedging ineffectiveness**

The Group hedges its own exposure and that of its subsidiary, AMG Alpoco UK Limited. There was no hedging ineffectiveness at the consolidated level during the years ended 31 December 2018 or 31 December 2017.

**Hedging ineffectiveness at Group level**

There was no ineffectiveness during the years ended 31 December 2018 or 31 December 2017.

**Total hedging activities**

The total amount recognised as other comprehensive income in relation to cash flow hedges at the year end for the Group and Company is as follows:

	<b>Group 2018 \$000</b>	<b>Group 2017 \$000</b>	<b>Company 2018 \$000</b>	<b>Company 2017 \$000</b>
Commodity cash flow hedges	(743)	438	(743)	438
Currency cash flow hedges	(839)	1,101	(839)	1,101
Other comprehensive (loss)/ gain	(1,582)	1,539	(1,582)	1,539

**22. Deferred tax****Group**

	<b>2018 \$000</b>	<b>2017 \$000</b>
Balance at 1 January	(247)	913
Credit to the statement of profit or loss	(87)	(446)
Charge/ (credit) to other comprehensive income	1,176	(714)
	<u>842</u>	<u>(247)</u>

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**AMG SUPERALLOYS UK LIMITED**

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**22. Deferred tax (continued)**

	Statement of financial position				Statement of profit or loss	
	Assets		Liabilities		2018 \$000	2017 \$000
	2018 \$000	2017 \$000	2018 \$000	2017 \$000		
Property, plant and machinery	-	-	535	607	(71)	46
Pension obligation	1,150	292	-	-	138	463
Financial instruments	133	-	-	46	-	-
Other taxable temporary differences	94	114	-	-	20	(63)
Net assets and liabilities	<u>1,377</u>	<u>406</u>	<u>535</u>	<u>653</u>		
Deferred tax charge					<u>87</u>	<u>446</u>

**Company**

	Statement of financial position				Statement of profit or loss	
	Assets		Liabilities		2018 \$000	2017 \$000
	2018 \$000	2017 \$000	2018 \$000	2017 \$000		
Property, plant and machinery	-	-	434	479	(46)	59
Pension obligation	1,098	244	-	-	129	469
Financial instruments	133	-	-	46	-	-
Other taxable temporary differences	93	120	-	-	26	(68)
Net assets and liabilities	<u>1,324</u>	<u>364</u>	<u>434</u>	<u>525</u>		
Deferred tax charge					<u>109</u>	<u>460</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**22. Deferred tax (continued)**

Deferred tax on machinery and property relates to tax allowances in excess of depreciation.

**Unrecognised deferred tax assets and liabilities**

There are no unrecognised deferred tax assets and liabilities.

**Effect of changes of tax rate**

Reductions in the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax balance at the 31 December 2018 has been calculated based on the rate of 17% substantively enacted at the statement of financial position date.

**23. Defined benefit schemes**

AMG Superalloys UK Limited sponsors two defined benefit schemes; the AMG UK Group 2006 Pension Plan ('2006 Pension Plan') and the LSM Additional Pension Plan ('Additional Pension Plan').

	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
2006 Pension Plan	(6,518)	(6,683)
Additional Pension Plan	(250)	2,410
	<u>(6,768)</u>	<u>(4,273)</u>

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

The scheme assets and liabilities of the 2006 Pension Plan and Additional Pension Plan are initially valued in full in accordance with IAS19. The assets and liabilities are then split between AMG Superalloys UK Limited and AMG Alpoco UK Limited. The liability of each member, as calculated at the last full actuarial valuation, is used to calculate the overall proportion of each company's liability (member data taken at December 2015 was used to identify the employees of each company). The relevant percentage is applied to all items from the latest IAS19 calculations (excluding company contributions) and the appropriate assets, liabilities, income and expense are recognised in the relevant company.

The level of company contributions to be paid is set by the trustees and company at the time of each triennial valuation.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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23. Defined benefit schemes (continued)

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

The last full actuarial valuation of the 2006 Pension Plan was carried out by a qualified independent actuary at 31 December 2015 and updated on an approximate basis to 31 December 2018.

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

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

	2018 \$000	2017 \$000
Present value of funded obligations	(95,282)	(109,091)
Fair value of plan assets	88,514	104,818
<b>Net liability</b>	<b>(6,768)</b>	<b>(4,273)</b>

The amounts recognised in the statement of profit or loss are as follows:

	2018 \$000	2017 \$000
Service costs	128	51
Net interest	82	174
Expenses	630	714
Gain from settlements	(1,996)	-
	<b>(1,156)</b>	<b>939</b>
Actual return on plan assets	(2,597)	6,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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23. Defined benefit schemes (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2018 \$000	2017 \$000
Opening defined benefit obligation	109,091	100,818
Service cost	128	51
Net interest	2,534	2,504
Expenses	630	714
Benefits paid, death in service insurance premiums and expenses	(6,959)	(6,025)
Liabilities extinguished on settlements	(1,996)	-
Exchange rate movements	(6,121)	9,745
<b>Remeasurement:</b>		
Actuarial losses/ (gains) from changes in demographic assumptions	529	(260)
Actuarial (gains)/ losses from changes in financial assumptions	(3,963)	1,994
Actuarial losses/ (gains) due to scheme experience	1,409	(450)
	<u>95,282</u>	<u>109,091</u>

Changes in fair value of scheme assets are as follows:

	2018 \$000	2017 \$000
Opening fair value of scheme assets	104,818	93,575
Contributions by scheme participants	1,692	1,618
Interest income	2,452	2,330
Benefits paid, death in service insurance premiums and expenses	(6,959)	(6,025)
Exchange rate movements	(5,882)	9,044
<b>Remeasurement:</b>		
Return on plan assets (excluding interest income)	(7,607)	4,276
	<u>88,514</u>	<u>104,818</u>

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**23. Defined benefit schemes (continued)**

The amount recognise in other comprehensive income are as follows:

	<b>2018</b> <b>\$000</b>	<b>2017</b> <b>\$000</b>
Actuarial (losses)/ gains from changes in demographic assumptions	(529)	260
Actuarial gains/ (losses) from changes in financial assumptions	3,963	(1,994)
Actuarial (losses)/ gains due to scheme experience	(1,409)	450
Return on plan assets (excluding interest income)	(7,607)	4,276
Exchange rates	239	(701)
	<u>(5,343)</u>	<u>2,291</u>

The major categories of scheme assets as amounts of total scheme assets are as follows:

	<b>2018</b> <b>\$000</b>	<b>2017</b> <b>\$000</b>
Diversified growth funds	49,494	66,500
Government bonds	-	5,661
LDI	21,280	-
Cash	(134)	273
Other	17,874	32,384
	<u>88,514</u>	<u>104,818</u>

Principal actuarial assumptions at the statement of financial position date (expressed as weighted averages):

	<b>2018</b>	<b>2017</b>
Rate used to discount liabilities	2.70%	2.40%
Inflation (RPI)	3.45%	3.40%
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	3.45%	3.40%
Allowance for pension in payment increases or 5% p.a. if less	3.25%	3.20%
Allowance for commutation of pension for cash at retirement (2006 Pension Plan)	50.00%	50.00%

Assumptions regarding future mortality are based on published statistics and mortality tables, but also take into account the actual membership experience and specific demographics of the workforce.

The average life expectancy assumptions, after retirement at 60 years age, are as follows:

Males retiring in 2018	24.9
Females retiring in 2018	26.9
Males retiring in 2038	26.1
Males retiring in 2038	28.2

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**23. Defined benefit schemes (continued)**

Analysis of sensitivity to the principal assumption of the present value of the defined benefit obligation:

	<b>Change in assumptions</b>	<b>Change in liabilities</b>
Discount rate	Decrease of 1% p.a.	Increase by 13%
Rate of inflation	Increase of 0.25% p.a.	Increase by 0.7%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 5.1%
Commutation	Members of commutation of pension for cash at retirement (2006 Pension Plan)	Decrease by 0.5%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact changes to the assumptions for revaluation and pension increases. The average duration of the defined benefit obligation at the year ending 31 December 2018 is 12 years.

**Defined Contribution Scheme**

The total expense as of 31 December 2018, recognised in the statement of profit or loss of \$1,056,888 (2017: \$1,047,518) represents contribution paid and payable to these plans.

**24. Ultimate parent company**

On 24 August 2018, the immediate parent undertaking Metallurg Europe Limited, a company registered in England and Wales sold its holding in the Company to fellow subsidiary AMG Advanced Metallurgical Group Invest BV, a company registered in the Netherlands.

The largest group in which the results of the Company are consolidated, and the controlling party, remains AMG Advanced Metallurgical Group N.V., a company incorporated in the Netherlands, whose principal address is WTC Amsterdam, Toren C, 13th Floor, Strawinskylaan 1343, 1077 XX Amsterdam. Copies of the financial statements of AMG Advanced Metallurgical Group N.V. can be obtained from the principal address or at [www.amg-nv.com](http://www.amg-nv.com).

**25. Contingent liabilities**

The Group has given guarantees to HM Revenue and Customs in respect of deferred duty. At nil, the guarantee amounted to \$60,000 (31 December 2017: \$60,000).

The Group is party to an Invoice Discounting Agreement with KBC Commercial Finance NV and has a fixed charge over its book debts and the proceeds of book debts.

The Group is party to AMG Advanced Metallurgical Group N.V.'s term and revolving credit facilities and has given fixed and floating charges over all its assets to participate in those group banking facilities. As of 1 February 2018, the AMG Advanced Metallurgical Group N.V. entered into a new \$350m seven-year senior secured term loan B facility and a \$200m five-year senior secured revolving credit facility. Proceeds from the facility were used to repay AMG Advanced Metallurgical Group N.V.'s previous credit facility.

At 31 December 2018, there was \$339m outstanding in term loans and revolving credit facility (2017: \$152m). Full details of the terms relating to the facility can be found in the group financial statements of AMG Advanced Metallurgical Group N.V., copies of which are available from the address and website listed in note 24.

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

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**26. Related party transactions**

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

**Transactions with entities within the group**

According to IAS 24 all subsidiaries and associates within the AMG Advanced Metallurgical Group N.V. are related parties to the Company and transactions with those companies have to be disclosed in the Company's separate financial statements. The related party transactions concerning sales and purchases of goods for the year ended 31 December are summarised below:

	Sales of goods		Purchases of goods	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Ultimate parent company	-	-	1,728	2,124
Fellow subsidiaries of the larger group	73,554	45,885	2,013	5,387
	<u>73,554</u>	<u>45,885</u>	<u>3,741</u>	<u>7,511</u>

Included in purchase of goods is \$1,495,519 (2017: \$2,123,992) charge from the ultimate parent company representing a management service fee.

Included in sale of goods is \$3,844,000 (2017: \$2,411,000) charge to fellow subsidiaries of the larger group for the recharge of accounting, IT and purchasing services.

The following balances were outstanding at the end of the reporting period:

	Amounts owed by related parties		Amounts owed to related parties	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Ultimate parent company	-	-	384	405
Immediate parent company	-	312	-	-
Fellow subsidiaries of the larger group	35,434	21,531	326	633
	<u>35,434</u>	<u>21,843</u>	<u>710</u>	<u>1,038</u>

**Compensation of key management personnel**

The directors are considered to be the only key management personnel. The remuneration of the directors is disclosed in note 3.

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**AMG SUPERALLOYS UK LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**26. Related party transactions (continued)****Group cash pooling arrangement**

The Group participates in a centralised cash management arrangement with AMG Invest GmbH as follows:

Related party relationship	Interest		Debtor	
	2018	2017	2018	2017
	\$000	\$000	\$000	\$000
Fellow subsidiaries of the larger group	2,396	1,549	62,042	60,178

At 1 January 2017 the arrangement bore interest at EURIBOR monthly average plus 2.875% on both debit and credit balances. Since May 2017, a separate interest has been applied for credit balances at EURIBOR monthly average plus 1.00% for Euro balances and EURIBOR monthly average plus 1.75% for US dollar and sterling balances. Interest is receivable/ payable monthly in arrears.

**27. Capital commitments**

At 31 December 2018, the capital commitments for the Group and Company were \$529,278 (2017: \$nil).

**28. Share based payments****Equity-settled share-based payments**

On June 26, 2007, the Management Board established the AMG Option Plan ("2007 Plan"), which is eligible to members of the Management Board, Supervisory Board, employees, and consultants of the Company. Each option issued under the plan entitles the holder to acquire shares at a future date at a price equal to the fair market value of the share at the date on which the option was granted. All outstanding options granted under this plan are fully vested. This vesting is not subject to any performance conditions. The options expire on the tenth anniversary of their grant date.

All options under the 2007 Plan are equity settled, in accordance with IFRS2, by award of options to acquire ordinary share or awards of ordinary shares. The expenses recognised for share-based payments in respect of employee services during the year ended 31 December 2018 is \$nil (2017 - \$nil).

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

	2018	2018	2017	2017
	No.	WAEP	No.	WAEP
Outstanding at 1 January	25,000	€40.50	25,000	€40.50
Exercised during the year	(20,000)	€40.50	-	-
Expired during the year	(5,000)	€40.50	-	-
Outstanding at 31 December	-	-	25,000	€40.50
Exercisable at 31 December	-	-	25,000	€40.50

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**28. Share based payments (continued)****Performance share units**

In May 2009, the Annual General Meeting of shareholders' of AMG Advanced Metallurgical Group N.V., the ultimate parent company of AMG Superalloys UK Limited, approved a remuneration policy that utilises cash-settled share based payments as a part of compensation. As of 3 November 2016, AMG Advanced Metallurgical Group N.V. elected to settle any future amounts paid for performance share units ('PSUs') awards with AMG shares. In the year ended 31 December 2018, 3,115 (2017: 4,150) PSUs were issued to certain employees which are share-settled. As these awards will be equity-settled, the balance is recorded in equity rather than as a liability as previously recorded when there was a cash settlement option in accordance with IFRS 2.

AMG Advanced Metallurgical Group N.V. utilised a Monte Carlo simulation to develop a valuation of the PSU awards upon modification. This calculation was performed on the date of conversion from cash-settled to equity-settled. The following table lists the inputs into the model used to calculate the fair value of the equity-settled performance share units that were granted in 2016 through 2018:

	2018	2017	2016
Share price at date of grant (€)	37.72	24.70	8.95
Share price at date of conversion (€)	-	-	16.53
Contractual life at issuance (years)	3	3	3
Contractual life at conversion (years)	-	-	2.16
Dividend yield (%)	-	0.93	1.15
Expected volatility (%)	38.04	35.57	34.90
Risk-free interest rate (%)	0.03	(0.01)	(0.15)
Expected departures at grant (%)	16	16	16

The expected volatility was calculated using the average share volatility of AMG Advanced Metallurgical Group N.V. (over a period equal to the expected term of the shares). The expected life is the time at which shares will vest. For the risk free rate, AMG Advanced Metallurgical Group N.V. utilises the three-year zero rate from the EURIBOR swap curve as of the valuation date.

The Company recorded expense of \$184,310 related to these awards during the year. The expense related to equity settled awards is recorded in the share-based payment reserve. The total number of equity settled PSUs outstanding as of 31 December 2018 was 8,604.

The expected departures for the 2018 and 2017 awards were adjusted from 16% and 12%, respectively, to 8% as of 31 December 2018, as a result of actual departures less than the expectation to date. The actual departures for the 2016 awards were adjusted from 12% to 6%, which approximates the actual departures to date.

The PSU awards include a performance multiplier which can range from 0x – 1.75x the target award based on the Company's share price performance relative to its peers. The Company achieved 1.75x for the 2015 grant which was settled in 2018 (2017: 1.75x). During the year ended 31 December 2018, 22,272 shares (2017: 19,492) were paid out with respect to the vesting of equity-settled performance share units granted in 2015.

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**29. Capital management, financial risk objectives and policies****Capital Management**

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

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

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

**Foreign currency risk management**

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

The Group has developed policies to manage effectively the Group's currency exposures and minimise the risks of currency fluctuations on a group level and uses forward currency contracts.

The Group deems its primary currency exposures to be in sales (trade receivables) and purchases (trade payables) denominated in Euros and British Pound Sterling.

The Group has developed policies to manage effectively the Group's currency exposures and minimise the risks of currency fluctuations on a group level and uses forward currency contracts.

The following tables demonstrate the sensitivity to a reasonable possible change in the functional currencies of the Group's exchange rates with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). Changes in sensitivity rates reflect various changes in the economy year-over-year.

The table details the Group's sensitivity to a 5% increase and decrease in the US Dollar against the relevant foreign currencies. A positive number below indicates an increase profit where the relevant currency strengthens 5% against the relevant currency. For a 5% weakening in the US dollar against the relevant currency, there would be a comparable impact on the profit, and the balances would be negative.

	Euro impact		Sterling impact	
	2018	2017	2018	2017
	\$000	\$000	\$000	\$000
Profit or (loss)	-	829	(1)	(959)
	-	829	(1)	(959)



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**29. Capital management, financial risk objectives and policies (continued)****Interest rate risk**

The Group is exposed to interest rate risk because the entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

**Credit risk - customer risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The amounts presented on the statement of financial position are net of allowances for doubtful receivables estimated by the Group's management, based on prior experience and the current economic climate.

The Group trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures which ensure their creditworthiness. In addition, receivable balances are monitored on an on-going basis to ensure that the Group's exposure to impairment losses is not significant. The Group's maximum exposure is the carrying amount as discussed in note 14 - \$44,350,000 (2017: \$31,746,000). The Group closely monitors its due but unimpaired receivables as detailed in note 14.

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

**Commodity risk**

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

The following table demonstrates the sensitivity to a reasonable possible change in the market price of these publicly traded commodities. Changes in sensitivity rates reflect various changes in the economy year over year. The table details the Group's sensitivity to a 5% increase and decrease in relation to commodity prices. A positive number below indicates an increase in profit where the relevant commodity price strengthens 5%. For a 5% weakening of the commodity price, there would be a comparable impact on the profit, and the balances below would be negative.

	2018 \$000	2017 \$000
Aluminium	146	56
Nickel	31	-
	<u>177</u>	<u>56</u>

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

Liquidity risk

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

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 based on contractual undiscounted payments:

	Carrying amount \$000	Contractual cash flows \$000	<3 months \$000	3-12 months \$000	2020 \$000	2021 \$000	>2022 \$000
Pension plan obligation	-	4,017	378	1,093	1,273	1,273	-
Trade and other payables	45,406	45,406	43,879	1,527	-	-	-
Financial derivatives	1,408	1,408	682	726	-	-	-
Non-cancellable operation leases	-	17	4	8	5	-	-
Total	46,814	50,848	44,943	3,354	1,278	1,273	-

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 based on contractual undiscounted payments:

	Carrying amount \$000	Contractual cash flows \$000	<3 months \$000	3-12 months \$000	2019 \$000	2020 \$000	>2021 \$000
Pension plan obligation	-	5,882	398	1,194	1,592	1,349	1,349
Trade and other payables	36,099	36,099	32,336	3,763	-	-	-
Financial derivatives	426	426	260	157	9	-	-
Non-cancellable operating leases	-	46	6	19	14	7	-
Total	36,525	42,453	33,000	5,133	1,615	1,356	1,349

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

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**30. Accounting estimates and judgements**

**Provision for bad debts**

The Group has a policy of providing for trade receivables which are overdue by 60 days or more. It is management's judgement that where this is the case the whole debt relating to the customer is provided for even if not yet due, as the risk of default is considered high. The amount recorded as a provision for potential bad debts at 31 December 2018 was \$2,498 (2017: \$18,904) for the Group and \$1,849 (2017: \$18,904) for the Company.

**Inventory provision**

The Group has a policy of making provisions against slow moving inventories as follows:

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

The directors consider this the best estimate to minimise the impact to the Group of slow moving stocks.

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

The total inventory provision recorded as at 31 December 2018 was \$1,940,884 (2017: \$1,863,010) for the Group and \$1,833,008 (2017: \$1,643,803) for the Company.

**Impairment**

The Group has a policy to review the carrying amounts of the Group's assets at each statement of financial position date. To determine whether there is any indication of impairment, a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

**Measurement of defined benefit obligations**

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumptions are reviewed at each reporting date. Due to the long-term nature of these plans and the complexity of the valuations, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used are given in note 23.

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**31. New and amended standards**

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018.

The nature and the impact of each new standard and amendment are described below:

***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

The impact of adopting IFRS 15 on the consolidated statement of financial position as of 31 December 2018, and its consolidated statement of profit or loss for the year then ended is \$nil. There was no material impact on the Group's consolidated statement of cash flows for the year ended 31 December 2018.

***IFRS 9 Financial Instruments***

The Group has chosen to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

**32. Standards issued but not yet effective**

Several new standards and amendments to standards are effective for annual periods beginning after 1 January 2019, and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

***IFRS 16 Leases***

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with recognition exemptions for leases of 'low-value' assets and short-term leases. Lessees recognise a liability to pay rentals with a corresponding asset and recognise interest expense and depreciation separately. Reassessment of certain key considerations (i.e. lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

The new standard is effective for the Group on 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as discussed below. The actual impact related to the implementation of the standard is subject to change until the Group presents its first financial statements that include the date of adoption.

The Group will recognise new assets and liabilities for its operating leases which are primarily comprised of buildings, equipment, machinery and automobiles. Right of use assets will be included within property, plant and equipment and classified in the same manner as if the underlying assets were owned by the Group. The lease liabilities will be presented as a separate line item on the consolidated statement of financial position. The nature and pattern of expense recognition in relation to these leases will change upon adoption of the standard. The Group will recognise depreciation on the right of use assets on a straight-line basis over the expected term of the lease. Interest expense related to the lease liabilities will be recognised over the expected term of the lease using the effective interest method.

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**32. Standards issued but not yet effective (continued)**

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. No significant impact is expected for the Group's finance leases.

Based on information that is currently available, the Group estimates that it will recognise additional lease liabilities of approximately \$485,000 at 1 January 2019, with a corresponding right of use asset recognised as well. The Group has limited leasing arrangements with the exceptions of certain building leases related to its subsidiary. These building leases comprise the majority of the expected right of use assets and lease liabilities to be recorded. The impact to the consolidated statement of profit and loss and consolidated statement of cash flows is not expected to be significant on an annual basis given the extended term of the underlying building leases.

The Group intends to apply the modified retrospective approach upon initial adoption of IFRS 16 on 1 January 2019. Under this approach, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings on that date. Comparative information will not be restated to conform to the provisions of the standard, which is permitted under the modified retrospective approach. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease as defined by IAS 17 and IFRIC 4. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group will also elect to utilise the practical expedient that allows it to rely on previous assessments and determinations of onerous leases. The value of any leases that were deemed to be onerous will be offset against the right of use asset at the date of adoption.

**Other Amendments**

In addition to the above, the adoption of the following new or amended standards have also been considered:

- IFRIC 23 Uncertainty over Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Amendments to References to Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts.

The Group has assessed these standards and does not anticipate a significant impact to the financial statements as a result of adoption.