

Registered number: 00345279

**Group Strategic Report, Report of the Directors and
Consolidated Financial Statements for the Year Ended 31 December 2017
for
AMG Superalloys UK Limited**



AMG Superalloys UK Limited

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AMG Superalloys UK Limited

Company Information for the Year Ended 31 December 2017

DIRECTORS:

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

SECRETARY:

T R C Palmer

REGISTERED OFFICE:

Fullerton Road
Rotherham
South Yorkshire
S60 1DL

REGISTERED NUMBER:

00345279 (England and Wales)

AUDITORS:

KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

SOLICITORS:

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

AMG Superalloys UK Limited

Group Strategic Report for the Year Ended 31 December 2017

The directors present their strategic report of the Company and the Group for the year ended 31 December 2017.

REVIEW OF BUSINESS

The Group income statement for the year is set out on page 9. Capital expenditure was \$2,215,000 (2016 - \$1,033,000).

	2017 \$'000	2016 \$'000
Revenue	140,743	124,213
Profit before tax before exceptionals	9,669	7,439
Total equity	81,138	70,606
EBITDA	12,409	9,683
Return on capital employed	62.8%	48.1%

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 28) and exceptional items (Note 4). 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 good by the directors with profitability further increasing in 2017 to an EBITDA of \$12.4m.

In the chrome metal market, market prices remained at similar prices levels to 2016 due to continued higher levels of Russian commodity grade material and a reduction in the demand in the oil and gas sector. Profitability increased with a 5% increase in sales volumes.

At Alpoco the performance for the year was considered good by the directors with profitability further increasing in 2017 to an EBITDA of \$3.4m. Sales revenues have increased by \$7.0m mostly due to the increase in the London Metal Exchange (LME) from \$1,605 in 2016 to \$1,968 (\$4.7m) and a 5% increase in sales volumes (\$2.3m). Profit before tax and EBITDA have been positively impacted by the increased sales volumes. Sales of premium products remained at similar levels to 2016.

The termination of agency contracts at Alpoco was concluded at the end of the first quarter 2017 with payment being made. The full provision of \$657k was utilised.

Working capital management is a key component to the performance of the company and working capital continues to be well managed with good credit terms from suppliers and credit terms given to customers controlled.

Return on capital employed has increased in 2017 following the improvement in the company's profitability.

Following the 2016 EU referendum, the invoking of Article 50 of the Treaty of the European Union and the subsequent Brexit negotiations the Company 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. The net saving for the year ended 31 December 2017 was \$914k.

AMG Superalloys UK Limited

Group Strategic Report - continued for the Year Ended 31 December 2017

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 on its customers, which it closely monitors and acts accordingly should circumstances arise.

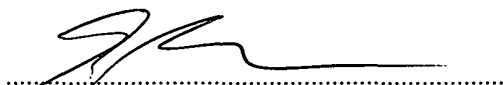
Liquidity risk

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.

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.

REPORT APPROVED BY AND SIGNED ON BEHALF OF THE BOARD BY:



.....
T R C Palmer
Company Secretary
Date: 2 August 2018

AMG Superalloys UK Limited

Directors' Report for the Year Ended 31 December 2017

The directors present their report with the financial statements of the Company and the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITY

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

DIVIDENDS

The total distribution of dividends for the year ended 31 December 2017 will be \$nil (2016 - \$nil).

In February 2018, the directors recommend that a final dividend of \$259,664 be paid (2016 - \$nil). This dividend is not accrued at the year ended 31 December 2017.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2017 to the date of this report.

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 Company considers relevant to them. As part of the Company's personnel policy, employees are consulted on decisions which affect them and their jobs. The Company 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 Company endeavours to continue their employment and arrange appropriate training, bearing in mind the handicap or disability. It is the policy of the Company 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

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

AUDITORS

KPMG have indicated their willingness to continue in office as auditors of the Company.

REPORT APPROVED BY AND SIGNED ON BEHALF OF THE BOARD BY:



.....
T R C Palmer
Company Secretary
Date: 2 August 2018

AMG Superalloys UK Limited

Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and the Financial Statements for the Year Ended 31 December 2017

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

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 IFRSs 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 Auditor's Report to the Members of AMG Superalloys UK Limited

Opinion

We have audited the financial statements of AMG Superalloys UK Limited ("the company") for the year ended 31 December 2017 which comprise the Consolidated Statement of Profit or 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 the accounting policies in note 1.

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 2017 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.

Going concern

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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.

Independent Auditor's Report to the Members of AMG Superalloys UK Limited - continued

Directors' responsibilities

As explained more fully in their statement set out on page 6, 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.

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.

.....
Matthew Wilcox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
Date: 6 August 2018

AMG Superalloys UK Limited**Consolidated Statement of Profit or Loss
for the Year Ended 31 December 2017**

		2017	2016
	Notes	\$'000	\$'000
CONTINUING OPERATIONS			
Revenue	2	140,743	124,213
Cost of sales		(124,035)	(110,591)
GROSS PROFIT		<u>16,708</u>	<u>13,622</u>
Administrative expenses		(8,151)	(7,161)
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS		<u>8,557</u>	<u>6,461</u>
Exceptional administrative expenses	4	-	674
OPERATING PROFIT ITEMS		<u>8,557</u>	<u>7,135</u>
Finance costs	5	(490)	(330)
Finance income	5	1,602	1,308
PROFIT BEFORE TAX	6	<u>9,669</u>	<u>8,113</u>
Income tax	7	(2,297)	(1,361)
PROFIT FOR THE YEAR		<u><u>7,372</u></u>	<u><u>6,752</u></u>

The notes on pages 18 to 67 form part of these financial statements

AMG Superalloys UK Limited**Consolidated Statement of Other Comprehensive Income
for the Year Ended 31 December 2017**

	2017	2016
	\$'000	\$'000
PROFIT FOR THE YEAR	7,372	6,752
OTHER COMPREHENSIVE INCOME/ (LOSS)		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/ (losses)	2,291	(5,464)
Income tax relating to items of other comprehensive income	(477)	812
	<u>1,814</u>	<u>(4,652)</u>
Items that may be reclassified subsequently to profit or loss:		
Derivatives	1,867	(643)
Deferred tax relating to fair value on derivative financial instruments	(237)	118
Current tax relating to fair value on derivative financial instruments	(91)	(37)
Share based payment (expense)/ credit	(193)	255
	<u>1,346</u>	<u>(307)</u>
OTHER COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR	3,160	(4,959)
NET OF TAX		
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>10,532</u>	<u>1,793</u>

The notes on pages 18 to 67 form part of these financial statements

AMG Superalloys UK Limited (Registered number: 00345279)

**Consolidated Statement of Financial Position
for the Year Ended 31 December 2017**

	Notes	2017 \$'000	2016 \$'000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	10	1,510	1,510
Intangible assets	11	403	429
Property, plant and equipment	12	11,528	11,045
Deferred tax	23	406	1,474
		<u>13,847</u>	<u>14,458</u>
CURRENT ASSETS			
Inventories	14	11,445	11,516
Trade and other receivables	15	95,943	90,828
Cash and cash equivalents	16	2,333	1,221
		<u>109,721</u>	<u>103,565</u>
TOTAL ASSETS		<u><u>123,568</u></u>	<u><u>118,023</u></u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	17	30,698	30,698
Capital redemption reserve	18	25,000	25,000
Share based payment reserve	18	3,220	3,413
Accumulated other comprehensive income	18	(11,794)	(15,147)
Retained earnings	18	34,014	26,642
TOTAL EQUITY		<u><u>81,138</u></u>	<u><u>70,606</u></u>

The notes on pages 18 to 67 form part of these financial statements

AMG Superalloys UK Limited (Registered number: 00345279)

**Consolidated Statement of Financial Position - continued
for the Year Ended 31 December 2017**

	Notes	2017 \$'000	2016 \$'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	19	80	112
Pension liability	24	4,273	7,243
Deferred tax	23	653	562
		<u>5,006</u>	<u>7,917</u>
CURRENT LIABILITIES			
Trade and other payables	19	36,525	38,872
Tax payable	20	899	628
		<u>37,424</u>	<u>39,500</u>
TOTAL LIABILITIES		<u>42,430</u>	<u>47,417</u>
TOTAL EQUITY AND LIABILITIES		<u>123,568</u>	<u>118,023</u>

The financial statements were approved by the Board of Directors on 2 August 2018 and were signed on its behalf by:


.....
K Lawson
Director

The notes on pages 18 to 67 form part of these financial statements

AMG Superalloys UK Limited (Registered number: 00345279)

**Company Statement of Financial Position
for the Year Ended 31 December 2017**

	Notes	2017 \$'000	2016 \$'000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	10	1,510	1,510
Intangible assets	11	386	411
Property, plant and equipment	12	8,878	8,338
Investments	13	2,219	2,219
Deferred tax	23	364	1,417
		<u>13,357</u>	<u>13,895</u>
CURRENT ASSETS			
Inventories	14	9,750	9,390
Trade and other receivables	15	91,194	85,785
Cash and cash equivalents	16	1,794	755
		<u>102,738</u>	<u>95,930</u>
TOTAL ASSETS		<u><u>116,095</u></u>	<u><u>109,825</u></u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	17	30,698	30,698
Capital redemption reserve	18	25,000	25,000
Share based payment reserve	18	3,220	3,413
Accumulated other comprehensive income	18	(11,596)	(14,876)
Retained earnings	18	27,864	22,873
TOTAL EQUITY		<u><u>75,186</u></u>	<u><u>67,108</u></u>

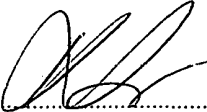
The notes on pages 18 to 67 form part of these financial statements

AMG Superalloys UK Limited (Registered number: 00345279)

**Company Statement of Financial Position - continued
for the Year Ended 31 December 2017**

	Notes	2017 \$'000	2016 \$'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Pension liability	24	3,988	6,908
Deferred tax	23	525	420
		<u>4,513</u>	<u>7,328</u>
CURRENT LIABILITIES			
Trade and other payables	19	35,795	35,322
Tax payable	20	601	67
		<u>36,396</u>	<u>35,389</u>
TOTAL LIABILITIES		<u>40,909</u>	<u>42,717</u>
TOTAL EQUITY AND LIABILITIES		<u>116,095</u>	<u>109,825</u>
 PROFIT FOR THE YEAR		 <u>4,991</u>	 <u>4,608</u>

The financial statements were approved by the Board of Directors on 2 August 2018 and were signed on its behalf by:


.....
K Lawson
Director

The notes on pages 18 to 67 form part of these financial statements

AMG Superalloys UK Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2017

	Called up share capital	Retained earnings	Capital redemption reserve
	\$'000	\$'000	\$'000
Balance at 1 January 2016	30,698	19,890	25,000
Changes in equity			
Total comprehensive income	-	6,752	-
Balance at 31 December 2016	30,698	26,642	25,000
Changes in equity			
Total comprehensive income	-	7,372	-
Balance at 31 December 2017	30,698	34,014	25,000

	Share based payment reserve	Accumulated other comprehensive income	Total
	\$'000	\$'000	\$'000
Balance at 1 January 2016	3,158	(9,933)	68,813
Changes in equity			
Total comprehensive income	255	(5,214)	1,793
Balance at 31 December 2016	3,413	(15,147)	70,606
Changes in equity			
Total comprehensive income	(193)	3,353	10,532
Balance at 31 December 2017	3,220	(11,794)	81,138

The notes on pages 18 to 67 form part of these financial statements

AMG Superalloys UK Limited

Company Statement of Changes in Equity for the Year Ended 31 December 2017

	Called up share capital	Retained earnings	Capital redemption reserve
	\$'000	\$'000	\$'000
Balance at 1 January 2016	30,698	18,265	25,000
Changes in equity			
Total comprehensive income	-	4,608	-
Balance at 31 December 2016	30,698	22,873	25,000
Changes in equity			
Total comprehensive income	-	4,991	-
Balance at 31 December 2017	30,698	27,864	25,000

	Share based payment reserve	Accumulated other comprehensive income	Total
	\$'000	\$'000	\$'000
Balance at 1 January 2016	3,158	(9,828)	67,293
Changes in equity			
Total comprehensive income	255	(5,048)	(185)
Balance at 31 December 2016	3,413	(14,876)	67,108
Changes in equity			
Total comprehensive income	(193)	3,280	8,078
Balance at 31 December 2017	3,220	(11,596)	75,186

The notes on pages 18 to 67 form part of these financial statements

AMG Superalloys UK Limited

Consolidated Statement of Cash Flows for the Year Ended 31 December 2017

		2017	2016
		\$'000	\$'000
Cash flows from operating activities			
Cash generated from operations	1	4,355	13,639
Interest paid		(143)	(42)
Tax paid		(1,672)	(665)
Net cash from operating activities		<u>2,540</u>	<u>12,932</u>
Cash flows used in investing activities			
Purchase of intangible fixed assets		-	(8)
Purchase of tangible fixed assets		(2,215)	(1,032)
Sale of tangible fixed assets		55	-
Net cash used in investing activities		<u>(2,160)</u>	<u>(1,040)</u>
Cash flows from/ (used in) financing activities			
Cash paid to cash pooling arrangement		(650)	(15,674)
Interest received		1,382	1,124
Net cash from/ (used in) financing activities		<u>732</u>	<u>(14,550)</u>
Increase/ (decrease) in cash and cash equivalents		<u>1,112</u>	<u>(2,658)</u>
Cash and cash equivalents at beginning of year	2	<u>1,221</u>	<u>3,879</u>
Cash and cash equivalents at end of year	2	<u><u>2,333</u></u>	<u><u>1,221</u></u>

The notes on pages 18 to 67 form part of these financial statements

AMG Superalloys UK Limited

Company Statement of Cash Flows for the Year Ended 31 December 2017

		2017 \$'000	2016 \$'000
Cash flows from operating activities			
Cash generated from operations	1	4,525	16,096
Interest (paid)/ received		(118)	169
Tax paid		(819)	(520)
Net cash from operating activities		<u>3,588</u>	<u>15,745</u>
Cash flows used in investing activities			
Purchase of intangible fixed assets		-	(7)
Purchase of tangible fixed assets		(1,883)	(845)
Sale of tangible fixed assets		53	-
Net cash used in investing activities		<u>(1,830)</u>	<u>(852)</u>
Cash flows used in financing activities			
Cash paid to cash pooling arrangement		(2,166)	(18,551)
Interest received		1,447	1,179
Net cash used in financing activities		<u>(719)</u>	<u>(17,372)</u>
Increase/ (decrease) in cash and cash equivalents		<u>1,039</u>	<u>(2,479)</u>
Cash and cash equivalents at beginning of year	2	<u>755</u>	<u>3,234</u>
Cash and cash equivalents at end of year	2	<u><u>1,794</u></u>	<u><u>755</u></u>

The notes on pages 18 to 67 form part of these financial statements

AMG Superalloys UK Limited

Notes to the Consolidated Statement of Cash Flows for the Year Ended 31 December 2017

1. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

Group

	2017	2016
	\$'000	\$'000
Profit before income tax	9,669	8,113
Depreciation charges	1,702	1,638
Amortisation charges	26	26
(Profit)/ loss on disposal of fixed assets	(25)	4
Pension credit	(854)	(973)
Performance stock unit expense	203	203
Net finance income	(1,112)	(978)
	<u>9,609</u>	<u>8,033</u>
Decrease in inventories	71	2,926
Increase in trade and other receivables	(4,465)	(5,399)
(Decrease)/ increase in trade and other payables	(860)	8,079
	<u>4,355</u>	<u>13,639</u>

Company

	2017	2016
	\$'000	\$'000
Profit before income tax	6,713	5,442
Depreciation charges	1,330	1,261
Amortisation charges	25	25
(Loss)/ profit on disposal of fixed assets	(40)	-
Pension credit	(553)	(1,007)
Performance stock unit expense	289	203
Net finance income	(1,212)	(815)
	<u>6,552</u>	<u>5,109</u>
(Increase)/ decrease in inventories	(360)	2,847
Increase in trade and other receivables	(3,243)	(6,191)
Increase in trade and other payables	1,576	14,331
	<u>4,525</u>	<u>16,096</u>

AMG Superalloys UK Limited

Notes to the Consolidated Statement of Cash Flows - continued for the Year Ended 31 December 2017

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Statement of Cash Flows in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts:

Group

Year ended 31 December 2017

	31.12.2017	01.01.2017
	\$'000	\$'000
Cash and cash equivalents	2,333	1,221

Year ended 31 December 2016

	31.12.2016	01.01.2016
	\$'000	\$'000
Cash and cash equivalents	1,221	3,879

Company

Year ended 31 December 2017

	31.12.2017	01.01.2017
	\$'000	\$'000
Cash and cash equivalents	1,794	755

Year ended 31 December 2016

	31.12.2016	01.01.2016
	\$'000	\$'000
Cash and cash equivalents	755	3,234

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2017

1. ACCOUNTING POLICIES

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.

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, 2017 and 2018 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.

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.

Revenue recognition

Revenue is recognised upon transfer of the risks and rewards of ownership, and in accordance with terms of shipment using Incoterms 2010. Revenue represents 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.

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 income statement as the expense category that is consistent with the function of the intangible assets.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

1. ACCOUNTING POLICIES - continued

Intangible assets - continued

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 income statement when the asset is derecognised.

Property, plant and equipment

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

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

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

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

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

The annual rates used are:

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

Leases

Rentals under operating leases are charged to the 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 2017 (2016 - none).

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

1. ACCOUNTING POLICIES - continued

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.

Financial instruments

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

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

At the inception of a cash flow hedge relationship, the 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 income statement.

Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement.

Investments

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

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

1. ACCOUNTING POLICIES - continued

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.

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.

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.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

1. ACCOUNTING POLICIES - continued

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.

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 2017 was USD \$1 = £0.741.

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.

Use of estimates and judgements

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

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

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

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

1. ACCOUNTING POLICIES - continued

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 income statement 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.

Government grants

Government grants are only recognised when there is reasonable assurance that the Group will comply with the conditions for their receipt and that the grant will be received. Capital based grant income is initially deferred and released to the income statement over the remaining useful economic life of the related asset. Revenue based grants are recognised in the Statement of Profit or Loss in the same period in which the relevant expenditure is incurred.

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.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

1. ACCOUNTING POLICIES - continued

Share based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by a valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the 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 income statement, with a corresponding entry in equity.

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the 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 income statement for the period.

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.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

1. ACCOUNTING POLICIES - continued

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.

Impairment excluding inventories and deferred tax assets

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

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

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

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

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 Chief Executive Officer, 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.

All Group revenues are received for the provision of goods; no revenues are received in relation to the provision of services.

Geographical segments

The following table sets out revenues by destination, regardless of where the goods were produced:

	Continuing operations	
	2017 \$'000	2016 \$'000
United Kingdom	24,605	24,149
Rest of Europe	36,120	31,294
America	51,192	44,151
Africa	3,882	2,293
Asia	21,310	19,024
Australasia	3,634	3,302
	<u>140,743</u>	<u>124,213</u>

3. EMPLOYEES AND DIRECTORS

Group

	2017 \$'000	2016 \$'000
Wages and salaries	12,114	11,748
Social security costs	1,158	1,116
Other pension costs	1,730	1,853
	<u>15,002</u>	<u>14,717</u>

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

	2017	2016
Production	195	180
Sales and administration	39	38
	<u>234</u>	<u>218</u>

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

3. EMPLOYEES AND DIRECTORS - continued

	2017	2016
	\$'000	\$'000
Aggregate emoluments	1,235	711
Company contributions paid to defined contribution scheme	53	50

There are 2 directors accruing benefits under a defined contribution scheme (2016 - 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 their services as directors of the Company and their services as directors of the holding and fellow subsidiary companies. E E Jackson, J M Dunckel and D 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:

	2017	2016
	\$'000	\$'000
Aggregate emoluments	785	508
Company contributions paid to defined contribution scheme	35	34

Company

	2017	2016
	\$'000	\$'000
Wages and salaries	9,632	9,211
Social security costs	924	872
Other pension costs	1,487	1,608
	12,043	11,691

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

	2017	2016
Production	144	128
Sales and administration	36	35
	180	163

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

4. EXCEPTIONAL ADMINISTRATIVE EXPENSES

	2017 \$'000	2016 \$'000
HSE Fine Provision	-	(674)
	<u>-</u>	<u>(674)</u>

In 2014, there was a works accident in which an employee suffered a life changing injury. An investigation was undertaken by the Health & Safety Executive (HSE) and resulted in the HSE seeking a prosecution. The Company pleaded guilty and on 19th December 2016 the Company was sentenced to a fine of £240k and the HSE were awarded their legal costs. In 2015, the Company made a provision of \$1,036k for the potential fine and legal fees. In 2016, the remaining \$674k of the provision was no longer required and was therefore released to the profit and loss account in 2016. The original provision was made prior to the new sentencing guidelines coming into force and estimating the potential fine was very difficult to determine.

5. NET FINANCE COSTS

Recognised in the statement of profit or loss:

	2017 \$'000	2016 \$'000
Finance income:		
Interest on group cash pooling arrangement	1,549	1,230
Interest on income on pension scheme assets	53	78
	<u>1,602</u>	<u>1,308</u>
Finance costs:		
Bank interest	143	81
Interest on pension scheme liabilities	227	161
Group interest	120	88
	<u>490</u>	<u>330</u>
Net finance income	<u>(1,112)</u>	<u>(978)</u>

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

6. PROFIT BEFORE TAX

	2017	2016
	\$'000	\$'000
Cost of inventories recognised as expense	86,473	74,684
Depreciation - owned assets	1,702	1,638
Amortisation charges	26	26
(Profit)/ loss on disposal of fixed assets	(25)	4
Auditor's remuneration - Fees payable to the company's auditors and their associates for the audit of the company's financial statements	137	177
	<u>137</u>	<u>177</u>

7. INCOME TAX

Analysis of tax expense

	2017	2016
	\$'000	\$'000
<i>Current tax:</i>		
Current period	1,707	1,368
Adjustment for prior periods	144	33
Total current tax	<u>1,851</u>	<u>1,401</u>
<i>Deferred tax:</i>		
Current period	169	119
Adjustment for prior periods	277	(159)
Total deferred tax	<u>446</u>	<u>(40)</u>
Total tax expense in statement of profit or loss	<u>2,297</u>	<u>1,361</u>
<i>Statement of comprehensive income:</i>		
Actuarial (gain)/ loss on defined benefit plans	(477)	812
(Gain)/ loss on cash flow hedges	(328)	81
Corporation tax (credit)/ charge to other comprehensive income	<u>(805)</u>	<u>893</u>

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

7. INCOME TAX - continued

Factors affecting the tax expense

The tax assessed for the year is higher (2016 - lower) than the standard rate of corporation tax in the UK. The difference is explained below:

	2017 \$'000	2016 \$'000
Profit on ordinary activities before income tax	9,669	8,113
Profit on ordinary activities multiplied by the standard rate of corporation tax in UK of 19.25% (2016 - 20.00%)	1,861	1,623
Effects of:		
Expenses not deductible for tax purposes	(11)	(136)
Adjustment to current tax in respect of prior periods	144	33
Adjustment to deferred tax in respect of prior periods	277	(34)
Rate adjustment for deferred tax	26	(125)
Tax expense	2,297	1,361

8. 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 \$4,991,000 before dividend income of \$nil (2016 - profit \$4,608,000 before dividend income of \$nil).

9. DIVIDENDS

	2017 \$'000	2016 \$'000
Ordinary share of £1 each:		
Interim	-	-

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

10. GOODWILL

Group	\$'000
COST	
At 1 January 2017 and 31 December 2017	1,510
NET BOOK VALUE	
At 31 December 2017	1,510
At 31 December 2016	1,510
Company	
COST	
At 1 January 2017 and 31 December 2017	1,510
NET BOOK VALUE	
At 31 December 2017	1,510
At 31 December 2016	1,510

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 2017 and 2016, the carrying amounts of the AMG Superalloys units were determined to be lower than their recoverable amounts and no impairment losses were recognised.

11. INTANGIBLE ASSETS

Group	REACH costs \$'000
COST	
At 1 January 2017 and 31 December 2017	530
AMORTISATION	
At 1 January 2017	101
Charge for year	26
At 31 December 2017	127
NET BOOK VALUE	
At 31 December 2017	403
At 31 December 2016	429

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

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

11. INTANGIBLE ASSETS

Company

	REACH costs \$'000
COST	
At 1 January 2017 and 31 December 2017	511
AMORTISATION	
At 1 January 2017	100
Charge for the year	25
At 31 December 2017	125
NET BOOK VALUE	
At 31 December 2017	386
At 31 December 2016	411

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

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings \$'000	Plant and machinery \$'000	Total \$'000
COST			
At 1 January 2017	18,540	52,900	71,440
Additions	-	2,215	2,215
Disposals	-	(1,474)	(1,474)
Transfer	(134)	134	-
At 31 December 2017	18,406	53,775	72,181
DEPRECIATION			
At 1 January 2017	13,864	46,531	60,395
Charge for year	39	1,663	1,702
Disposals	-	(1,444)	(1,444)
At 31 December 2017	13,903	46,750	60,653
NET BOOK VALUE			
At 31 December 2017	4,503	7,025	11,528
At 31 December 2016	4,676	6,369	11,045

continued...

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

12. PROPERTY, PLANT AND EQUIPMENT - continued

The Group did not have any borrowing costs to capitalise during the year ended 31 December 2017 (2016 - \$nil).

Company	Land and buildings \$'000	Plant and machinery \$'000	Total \$'000
COST			
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
DEPRECIATION			
At 1 January 2017	11,144	34,663	45,807
Charge for year	-	1,330	1,330
Disposals	-	(1,440)	(1,440)
At 31 December 2017	11,144	34,553	45,697
NET BOOK VALUE			
At 31 December 2017	3,598	5,280	8,878
At 31 December 2016	3,598	4,740	8,338

The Company did not have any borrowing costs to capitalise during the year ended 31 December 2017 (2016 - \$nil).

Securities

As at 31 December 2017, the Group's land and buildings and plant and machinery have been pledged against financing loans and a revolving credit facility taken out by AMG Advanced Metallurgical Group N.V., the Group's ultimate parent undertaking. Please refer to note 26.

13. INVESTMENTS

Company	Shares in group undertakings \$'000
COST	
At 1 January 2017 and 31 December 2017	2,219
NET BOOK VALUE	
31 December 2017	2,219
31 December 2016	2,219

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

13. INVESTMENTS - continued

Company and Group

The Company and Group'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, Fullerton Road, Rotherham, S60 1DL

Nature of business: Manufacture of aluminium powder

Class of shares:

Ordinary shares

% holding

100

AMG UK Group Pension Trustee Limited

Country of incorporation: England and Wales

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

Nature of business: Pension trustee

Class of shares:

Ordinary shares

% holding

100

14. INVENTORIES

	2017	Group	2017	Company
	\$'000	2016	\$'000	2016
		\$'000	\$'000	\$'000
Raw materials	4,686	4,591	4,138	4,153
Finished goods	6,051	6,669	4,904	4,981
Merchanting inventory	708	256	708	256
	<u>11,445</u>	<u>11,516</u>	<u>9,750</u>	<u>9,390</u>

The Group write down of inventories to net realisable value amounted to \$569,165 (2016: \$631,243) and the provision charged for slow-moving inventories amounted to \$1,293,845 (2016: \$1,362,994).

The Company write down of inventories to net realisable value amounted to \$451,443 (2016: \$370,590) and the provision charged for slow-moving inventories amounted to \$1,192,360 (2016: \$1,277,626).

Securities

At 31 December 2017, 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 26.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

15. TRADE AND OTHER RECEIVABLES

	2017 \$'000	Group 2016 \$'000	2017 \$'000	Company 2016 \$'000
Current:				
Trade receivables	9,903	13,863	7,909	10,809
Amount receivable from affiliates in respect of cash pooling arrangement	60,178	59,529	58,751	56,585
Receivables from affiliates	21,843	15,526	21,514	16,582
Other receivables	2,964	1,524	1,965	1,423
Derivative financial instruments	1,055	386	1,055	386
	<u>95,943</u>	<u>90,828</u>	<u>91,194</u>	<u>85,785</u>

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

All amounts within trade and other 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 is as follows:

	Gross 2017 \$'000	Impairment 2017 \$'000	Gross 2016 \$'000	Impairment 2016 \$'000
Current - not yet due	6,334	-	10,708	-
0 - 30 days	3,487	-	3,018	-
31 - 60 days	53	-	120	-
More than 60 days due	48	19	221	13
	<u>9,922</u>	<u>19</u>	<u>14,067</u>	<u>13</u>
Company				
	Gross 2017 \$'000	Impairment 2017 \$'000	Gross 2016 \$'000	Impairment 2016 \$'000
Current - not yet due	5,181	-	8,266	-
0 - 30 days	2,646	-	2,507	-
31 - 60 days	53	-	24	-
More than 60 days due	48	19	31	12
	<u>7,928</u>	<u>19</u>	<u>10,828</u>	<u>12</u>

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

15. TRADE AND OTHER RECEIVABLES - continued

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

	2017 \$'000	2016 \$'000
At 1 January	13	106
Charge for the year	6	13
Amounts recovered	-	(12)
Amounts written off	-	(94)
At 31 December	19	13

Factoring of Receivables

As of 31 December 2017, the Group had total receivables factored and outstanding of \$6,621,000 (2016: \$nil). The Group sold receivables of \$38,403,000 throughout the year and incurred cost of \$262,000 in conjunction with the sales of these receivables of which \$79,000 were included in finance costs and \$183,000 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.

As of 31 December 2017, the Company had total receivables factored and outstanding of \$4,550,000 (2016: \$nil). The Company sold receivables of \$27,370,000 throughout the year and incurred cost of \$174,000 in conjunction with the sales of these receivables of which \$54,000 were included in finance costs and \$120,000 were recorded 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 2017, 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 26.

16. CASH AND CASH EQUIVALENTS

	2017 \$'000	Group 2016 \$'000	2017 \$'000	Company 2016 \$'000
Bank accounts	2,333	1,221	1,794	755

At 31 December 2017, the Company did not have borrowing facilities (2016 - \$nil).

At 31 December 2017, the Group and Company had undrawn borrowing facilities on bank overdraft totalling £100,000 (2016: £100,000).

Securities

At 31 December 2017, 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 26.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

17. CALLED UP SHARE CAPITAL

Allotted and fully paid:		Nominal value:	2017	2016
Number:	Class:		\$'000	\$'000
16,000,000	Ordinary	£1	<u>30,698</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.

18. RESERVES

Group

	Retained earnings	Capital redemption reserve	Share based payment reserve	Accumulated other comprehensive income	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2017	26,642	25,000	3,413	(15,147)	39,908
Profit for the year	7,372	-	-	-	7,372
Share based payment expense during the year	-	-	(193)	-	(193)
Actuarial gains on defined benefit schemes	-	-	-	2,291	2,291
Tax effect of amounts in other comprehensive income	-	-	-	(805)	(805)
Fair value movements on derivative financial instruments	-	-	-	1,867	1,867
At 31 December 2017	<u>34,014</u>	<u>25,000</u>	<u>3,220</u>	<u>(11,794)</u>	<u>50,440</u>

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

18. RESERVES - continued

	Retained earnings	Capital redemption reserve	Share based payment reserve	Accumulated other comprehensive income	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2016	19,890	25,000	3,158	(9,933)	38,115
Profit for the year	6,752	-	-	-	6,752
Share based payment expense during the year	-	-	255	-	255
Actuarial losses on defined benefit schemes	-	-	-	(5,464)	(5,464)
Tax effect of amounts in other comprehensive income	-	-	-	893	893
Fair value movements on derivative financial instruments	-	-	-	(643)	(643)
At 31 December 2016	<u>26,642</u>	<u>25,000</u>	<u>3,413</u>	<u>(15,147)</u>	<u>39,908</u>
Company					
	Retained earnings	Capital redemption reserve	Share based payment reserve	Accumulated other comprehensive income	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2017	22,873	25,000	3,413	(14,876)	36,410
Profit for the year	4,991	-	-	-	4,991
Share based payment expense during the year	-	-	(193)	-	(193)
Actuarial gains on defined benefit schemes	-	-	-	2,202	2,202
Tax effect of amounts in other comprehensive income	-	-	-	(789)	(789)
Fair value movements on derivative financial instruments	-	-	-	1,867	1,867
At 31 December 2017	<u>27,864</u>	<u>25,000</u>	<u>3,220</u>	<u>(11,596)</u>	<u>44,488</u>

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

18. RESERVES - continued

	Retained earnings	Capital redemption reserve	Share based payment reserve	Accumulated other comprehensive income	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2016	18,265	25,000	3,158	(9,828)	36,595
Profit for the year	4,608	-	-	-	4,608
Share based payment expense during the year	-	-	255	-	255
Actuarial losses on defined benefit schemes	-	-	-	(5,265)	(5,265)
Tax effect of amounts in other comprehensive income	-	-	-	860	860
Fair value movements on derivative financial instruments	-	-	-	(643)	(643)
At 31 December 2016	<u>22,873</u>	<u>25,000</u>	<u>3,413</u>	<u>(14,876)</u>	<u>36,410</u>

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.

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 29.

Accumulated other comprehensive income reserve

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

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

19. TRADE AND OTHER PAYABLES

	2017	Group 2016	2017	Company 2016
	\$'000	\$'000	\$'000	\$'000
Current:				
Trade payables	29,858	22,759	16,810	16,050
Trade payables subject to interest	2,372	9,435	2,372	9,435
Payables from affiliates	1,038	2,672	13,605	6,694
Social security and other taxes	387	332	387	332
Other creditors	2,412	2,365	2,195	1,534
Derivative financial instruments	426	1,277	426	1,277
Deferred government grants	32	32	-	-
	<u>36,525</u>	<u>38,872</u>	<u>35,795</u>	<u>35,322</u>
Non-current:				
Deferred government grants	80	112	-	-
Aggregate amounts	<u>36,605</u>	<u>38,984</u>	<u>35,795</u>	<u>35,322</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 the USD LIBOR rate to further extend terms by maximum of 93 days.

For related party transactions refer to note 28.

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 the grant of 9 years.

Amounts totalling \$32,119 (2016: \$32,119) were credited to the income statement during the year and included in cost of sales.

20. TAX

Group

The corporation tax balance recognised in the Statement of Financial Position is detailed below:

	2017	2016
	\$'000	\$'000
Corporation tax payable	<u>899</u>	<u>628</u>

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

20. TAX - continued

Company

The corporation tax balance recognised in the Statement of Financial Position is detailed below:

	2017 \$'000	2016 \$'000
Corporation tax payable	601	67

21. LEASING AGREEMENTS

Minimum lease payment under non-cancellable operating leases fall dues as follows:

	2017 \$'000	2016 \$'000
Within one year	25	6
Between one and five years	21	10
	46	16

22. FINANCIAL INSTRUMENTS

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Derivative financial instruments

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

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

22. FINANCIAL INSTRUMENTS - continued

Financial instruments by category

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

Group

	Carrying value 2017 \$'000	Fair value 2017 \$'000	Carrying Value 2016 \$'000	Fair value 2016 \$'000
Current financial assets				
Trade & other receivables	94,888	94,888	90,442	90,442
Cash & cash equivalents	2,333	2,333	1,221	1,221
Derivative financial instruments	1,055	1,055	386	386
Total financial assets	98,276	98,276	92,049	92,049
Current financial liabilities				
Trade & other payables	33,268	33,268	34,866	34,866
Derivative financial instruments	426	426	1,277	1,277
Total financial liabilities	33,694	33,694	36,143	36,143

Company

	Carrying value 2017 \$'000	Fair value 2017 \$'000	Carrying Value 2016 \$'000	Fair value 2016 \$'000
Current financial assets				
Trade & other receivables	90,139	90,139	85,400	85,400
Cash & cash equivalents	1,794	1,794	755	755
Derivative financial instruments	1,055	1,055	386	386
Total financial assets	92,988	92,988	86,541	86,541

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

22. FINANCIAL INSTRUMENTS - continued

Company	Carrying value 2017 \$'000	Fair value 2017 \$'000	Carrying Value 2016 \$'000	Fair value 2016 \$'000
Current financial liabilities				
Trade & other payables	32,787	32,787	32,179	32,179
Derivative financial instruments	426	426	1,277	1,277
Total financial liabilities	33,213	33,213	33,456	33,456

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 2017	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets				
Forward contracts - hedged	1,055	-	1,055	-
Financial liabilities				
Forward contracts - hedged	426	-	426	-
31 December 2016	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets				
Forward contracts - hedged	386	-	386	-
Financial liabilities				
Forward contracts - hedged	1,277	-	1,277	-

During the year ended 31 December 2017, and 2016, there were no transfers between level 1, level 2 and level 3 fair value measurements.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

22. FINANCIAL INSTRUMENTS - continued

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 income statement recognised in this period. Commodity forward contracts have been designated as cash flow hedges.

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
US dollar denominated contracts to purchase commodities:				
Aluminium forwards	3,575	2,080	583	(5)

The open commodity forward contracts as at 31 December 2016 are as follows:

	Metric tonnes	Average price per tonne \$	Fair value assets \$'000	Fair value liabilities \$'000
US dollar denominated contracts to purchase commodities:				
Aluminium forwards	1,075	1,646	81	(8)

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

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Commodity cash flow hedges	527	295	527	295
Tax effect of commodity cash flow hedges	(89)	(88)	(89)	(88)
Other comprehensive charge	438	207	438	207

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

22. FINANCIAL INSTRUMENTS - continued

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

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Commodity cash flow hedges	(491)	32	(491)	32

Foreign currency forward contracts

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

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

	Notional amount	Average contract rate	Fair value assets	Fair value liabilities
			\$'000	\$'000
Cash flow hedges:				
Euro (versus USD) 2017	€14.055 million	1.180	-	(394)
Euro (versus USD) 2016	€9.125 million	1.090	305	(33)

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

	Notional amount	Average contract rate	Fair value assets	Fair value liabilities
			\$'000	\$'000
Cash flow hedges:				
GBP (versus USD) 2017	\$14.45 million	1.327	472	(27)
GBP (versus USD) 2016	£12.12 million	1.348	-	(1,236)

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

22. FINANCIAL INSTRUMENTS - continued

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

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Currency cash flow hedges	1,340	(938)	1,340	(938)
Tax effect of currency cash flow hedges	(239)	169	(239)	169
Other comprehensive charge/ (income)	<u>1,101</u>	<u>(769)</u>	<u>1,101</u>	<u>(769)</u>

The charge/ (credit) to the Statement of Profit or Loss as cost of sales for the period relating to currency cash flow hedges for the Group and Company was as follows:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Currency cash flow hedges	<u>1,155</u>	<u>(900)</u>	<u>1,155</u>	<u>(900)</u>

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 2017 or 31 December 2016.

Hedging ineffectiveness at Group level

There was no ineffectiveness during the years ended 31 December 2017 or 31 December 2016.

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:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Commodity cash flow hedges	438	207	438	207
Currency cash flow hedges	<u>1,101</u>	<u>(769)</u>	<u>1,101</u>	<u>(769)</u>
Other comprehensive gain/ (loss)	<u>1,539</u>	<u>(562)</u>	<u>1,539</u>	<u>(562)</u>

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

23. DEFERRED TAX

Group

	2017 \$'000	2016 \$'000
Balance at 1 January	913	(56)
(Credit)/ charge to income statement	(446)	40
(Credit)/ charge to other comprehensive income	(714)	929
	<u>(247)</u>	<u>913</u>
Balance at 31 December		

	Statement of Financial Position			Statement of Profit or Loss		
	Assets		Liabilities			
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Property, plant and machinery	-	-	607	562	46	(107)
Pension obligation	292	1,231	-	-	463	61
Other taxable temporary differences	-	-	-	-	-	(4)
Financial assets	-	191	46	-	-	-
Provisions	114	52	-	-	(63)	10
	<u>406</u>	<u>1,474</u>	<u>653</u>	<u>562</u>		
Net assets and liabilities						
					446	(40)
Deferred tax provision/ (benefit)					<u>446</u>	<u>(40)</u>

Company

	Statement of Financial Position			Statement of Profit or Loss		
	Assets		Liabilities			
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Property, plant and machinery	-	-	479	420	59	(87)
Pension obligation	244	1,174	-	-	469	68
Financial assets	-	191	46	-	-	-
Provisions	120	52	-	-	(68)	10
	<u>364</u>	<u>1,417</u>	<u>525</u>	<u>420</u>		
Net assets and liabilities						
					460	(9)
Deferred tax provision/ (benefit)					<u>460</u>	<u>(9)</u>

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

23. 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 19% (effective 1 April 2017) and 17% (effective from 1 April 2020) were substantively enacted on 18 November 2015 and 6 September 2016 respectively. This will reduce the Company's future current tax charge accordingly. The deferred tax balance at the 31 December 2017 has been calculated based on the rate of 17% substantively enacted at the statement of financial position date.

24. EMPLOYEE BENEFIT OBLIGATIONS

Defined benefits plans

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

The balance recognised in the Consolidated Statement of Financial Position is detailed below:

	2017 \$'000	2016 \$'000
2006 Pension Plan	(6,683)	(9,230)
Additional Pension Plan	2,410	1,987
	<u>(4,273)</u>	<u>(7,243)</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 Alpo 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.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

24. EMPLOYEE BENEFIT OBLIGATIONS - 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 2017.

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:

	Defined benefit pension plans	
	2017	2016
	\$'000	\$'000
Present value of funded obligations	(109,091)	(100,818)
Fair value of plan assets	104,818	93,575
	<u>(4,273)</u>	<u>(7,243)</u>
Deficit	<u>(4,273)</u>	<u>(7,243)</u>
Net liability	<u>(4,273)</u>	<u>(7,243)</u>

The amounts recognised in Statement of Profit or Loss are as follows:

	Defined benefit pension plan	
	2017	2016
	\$'000	\$'000
Service costs	51	187
Net interest from net defined benefit liability	174	83
Expenses	714	619
	<u>939</u>	<u>889</u>
Actual return on plan assets	<u>6,605</u>	<u>14,352</u>

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

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

	Defined benefit pension plan	
	2017	2016
	\$'000	\$'000
Opening defined benefit obligation	100,818	103,592
Service cost	51	187
Net interest	2,504	3,830
Expenses	714	619
Benefits paid, death in service insurance premiums and expenses	(6,025)	(6,432)
Exchange rate movements	9,745	(17,497)
Remeasurement:		
Actuarial (gains)/ losses from changes in demographic assumptions	(260)	-
Actuarial losses from changes in financial assumptions	1,994	15,885
Actuarial (gains)/ losses due to scheme experience	(450)	634
	<u>109,091</u>	<u>100,818</u>

Changes in the fair value of scheme assets are as follows:

	Defined benefit pension plan	
	2017	2016
	\$'000	\$'000
Opening fair value of scheme assets	93,575	100,923
Contributions by scheme participants	1,618	1,778
Interest income	2,330	3,747
Benefits paid, death in service insurance premiums and expenses	(6,025)	(6,432)
Exchange rate movements	9,044	(17,046)
Remeasurements:		
Return on plan assets (excluding interest income)	4,276	10,605
	<u>104,818</u>	<u>93,575</u>

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

The amounts recognised in other comprehensive income are as follows:

	Defined benefit pension plan	
	2017	2016
	\$'000	\$'000
Actuarial gains from changes in demographic assumptions	260	-
Actuarial losses from changes in financial assumptions	(1,994)	(15,885)
Actuarial (gains)/ losses due to scheme experience	450	(634)
Return on plan assets (excluding interest income)	4,276	10,605
Exchange rates	(701)	450
	<u>2,291</u>	<u>(5,464)</u>

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

	Defined benefit pension plan	
	2017	2016
	\$'000	\$'000
Diversified corporate growth	66,500	60,325
Government bonds	5,661	4,927
Cash	273	(104)
Other	32,384	28,427
	<u>104,818</u>	<u>93,575</u>

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

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

	2017	2016
Rate used to discount liabilities	2.4%	2.6%
Inflation (RPI)	3.4%	3.5%
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	3.4%	3.5%
Allowance for pension in payment increases of 5% p.a. if less	3.2%	3.3%
Allowance for commutation of pension for cash at retirement (2006 Pension Plan)	50.0%	50.0%

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

24. EMPLOYEE BENEFIT OBLIGATIONS - continued

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:

Male retiring in 2016	24.8
Female retiring in 2016	26.8
Male retiring in 2036	26.7
Female retiring in 2036	28.8

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

	Change in assumptions	Change in liabilities
Discount rate	Decrease of 1% p.a.	Increase by 15.3%
Rate of inflation	Increase 0.25% p.a.	Increase by 0.6%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 4.7%
Commutation	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 0.5%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases. The average duration of the defined benefit obligation at the year ending 31 December 2017 is 14 years.

Contributions of \$1,619,000 have been made by the employer over the period for the pension plans (2016 - \$1,778,000). The best estimate of contributions to be paid to the plan for the year ended 31 December 2017 is \$1,591,938.

Defined contribution scheme

The total expense as of 31 December 2017, recognised in the income statement of \$1,047,518 (2016 - \$1,047,266) represents contributions paid and payable to these plans.

25. ULTIMATE PARENT COMPANY

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

The largest group in which the results of the Company are consolidated, and the controlling party, is AMG Advanced Metallurgical Group N.V., a Group 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.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

26. CONTINGENT LIABILITIES

The Group has given guarantees to HM Revenue and Customs in respect of deferred duty. At 31 December 2017, the guarantee amounted to \$60,000 (2016 - \$162,600). Also at the 31 December 2017, the Group has given documentary letters of credit totalling \$nil (2016 - \$76,000) in respect of raw materials.

The Group is party to a 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.

The Group's assets are secured against the ultimate parent Group's banking facilities totalling up to \$406m in term loans and revolving credit facilities. At 31 December 2017, there was \$152m outstanding in term loans and revolving credit facility (2016 - \$151m).

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 listed in note 25.

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

27. CAPITAL COMMITMENTS

	2017 \$'000	2016 \$'000
Contracted but not provided for in the financial statements	-	-

28. RELATED PARTIES

Transactions with key management personnel

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

Transactions with entities within a 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, recharges for accounting, IT and purchasing services for the year and the balances outstanding at 31 December are summarised below:

	Sale of goods 2017 \$'000	Recharge income 2017 \$'000	Debtors 2017 \$'000	Sale of goods 2016 \$'000	Recharge income 2016 \$'000	Debtors 2016 \$'000
Immediate parent company	-	-	312	-	-	312
Fellow subsidiaries of the larger group	43,474	2,411	21,531	33,042	3,895	15,214

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

28. RELATED PARTIES - continued

	Purchases	Recharged expenses	Creditors	Purchases	Recharged expenses	Creditors
	2017	2017	2017	2016	2016	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Ultimate parent company	-	2,124	405	-	1,554	279
Fellow subsidiaries of the larger group	5,368	19	633	8,844	17	2,393

The \$2,123,992 (2016 - \$1,554,084) charge from the ultimate parent company represented a management service fee.

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

	Sale of goods	Recharge income	Debtors	Sale of goods	Recharge income	Debtors
	2017	2017	2017	2016	2016	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Subsidiaries	1,423,066	3,707	17	9,810	584	1,066

	Purchases	Recharged expenses	Creditors	Purchases	Recharged expenses	Creditors
	2017	2017	2017	2016	2016	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Subsidiaries	16,504,443	-	684	-	12,595	5,921

Included in recharge income above is \$1,423,066 (2016 - \$4,676,176) relating to raw materials purchased by the Group on behalf of one of its subsidiaries.

The parent company, AMG Superalloys UK Limited, purchases raw materials on behalf of its subsidiary. Accounting, information technology and purchasing services are recharged to its subsidiary. The payroll is also operated by AMG Superalloys UK Limited and the relevant salary costs are recharged through to its subsidiary.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

28. RELATED PARTIES - continued

Group cash pooling arrangement

	Interest receivable	Debtors	Interest receivable	Debtors
	2017	2017	2016	2016
	\$'000	\$'000	\$'000	\$'000
Ultimate parent company	1,549	60,178	1,230	59,529

The Group participates in a centralised cash management arrangement with AMG Invest GmbH. Initially 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.

29. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share-based payments

On June 26, 2007, the Management Board of AMG Advanced Metallurgical Group N.V., the parent company of AMG Superalloys UK Limited, established the AMG Option Plan (the '2007 Plan'). The 2007 Plan is eligible to senior management of the Company.

Each option issued under the 2007 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 IFRS 2, by award of options to acquire ordinary shares or award of ordinary shares. The expense recognised for share-based payments in respect of employee services during the year to 31 December 2017 is \$nil (2016 - \$nil).

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

	2017 No.	2017 WAEP	2016 No.	2016 WAEP
Outstanding at 1 January	25,000	€40.50	25,000	€40.50
Outstanding at 31 December	25,000	€40.50	25,000	€40.50
Exercisable at 31 December	25,000	€40.50	25,000	€40.50

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

29. SHARE-BASED PAYMENT TRANSACTIONS - continued

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

	2017	2016
Exercise price	€40.50	€40.50
Share price at grant	€40.50	€40.50
Contractual life (years)	10	10
Weighted average remaining contractual life (years)	0.2	1.2

The options vest in four equal tranches on the first, second, third and fourth anniversaries of the grant date. Therefore continued employment is a non-market condition for options to vest.

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 2017, 4,150 (2016: 11,453) 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 2015 through 2017:

	2017 Grant	2016 Grant	2015 Grant
Share price at date of grant	€24.70	€8.95	€8.43
Share price at date of conversion	-	€16.53	€16.53
Contractual life at issuance (years)	3	3	3
Contractual life at conversion (years)	-	2.16	1.16
Dividend yield	0.93%	1.15%	1.15%
Expected volatility	35.57%	34.90%	31.07%
Risk-free interest rate	(0.01)%	(0.15)%	(0.25)%
Expected departures	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 Netherlands corporate bond rate at the valuation date.

The Company recorded expense of \$289,000 related to these awards during the year. The expense related to equity settled awards is recorded in the share-based payment reserve (refer to note 18). The total number of equity settled PSUs outstanding as of 31 December 2017 was 27,761.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

29. SHARE-BASED PAYMENT TRANSACTIONS - continued

The actual departures for the 2015 grant were 20% and the stock-based compensation expense was adjusted for the forfeitures in excess of the expected departures of 16%. The expected departures for the 2017 and 2016 grant were adjusted from 16% to 12% as of 31 December 2017, as a result of actual departures less than the expectation 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 2014 grant which was settled in 2017 (2016: 1.15x). During the year ended December 31, 2017, 19,492 shares (2016: 55,120) were paid out with respect to the vesting of equity-settled performance share units granted in 2014.

30. CAPITAL MANAGEMENT, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital Management

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

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

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

Credit risk - customer risk

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

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

The Group trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures which ensure their creditworthiness. In addition, receivable balances are monitored on an 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 15 - \$31,746,000. The Group closely monitors its due but unimpaired receivables as detailed in note 15.

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

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

30. CAPITAL MANAGEMENT, FINANCIAL RISK MANAGEMENT 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 2017 based on contractual undiscounted payments:

	Carrying amount	Contractual cash flows	< 3 months	3-12 months	2019	2020	>2021
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Pension plan obligation	-	5,882	398	1,194	1,592	1,349	1,349
Trade & 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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 based on contractual undiscounted payments:

	Carrying amount	Contractual cash flows	< 3 months	3-12 months	2018	2019	>2020
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Pension plan obligations	-	9,231	308	923	1,565	1,230	5,205
Trade & other payables	34,865	34,865	34,865	-	-	-	-
Financial derivatives	1,277	1,277	456	821	-	-	-
Non-cancellable operating leases	-	16	4	12	-	-	-
Other	2,697	2,697	2,697	-	-	-	-
Total	38,839	48,086	38,330	1,756	1,565	1,230	5,205

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

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

30. CAPITAL MANAGEMENT, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Interest rate risk

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

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

Currency risk

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

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

The Group deems its primary currency exposures to be in sales (trade receivables) and purchases (trade payables) denominated in Euros and British Pound Sterling. The following tables demonstrate the sensitivity to a reasonable possible change in the functional currencies of the 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.

31 December 2017	Changes in relation to functional currency \$'000	Effect on profit before tax \$'000
Euro	+5%	829
Euro	-5%	(829)
Sterling	+5%	(959)
Sterling	-5%	959
31 December 2016	Changes in relation to functional currency \$'000	Effect on profit before tax \$'000
Euro	+5%	2
Euro	-5%	(2)
Sterling	+5%	(199)
Sterling	-5%	199

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

30. CAPITAL MANAGEMENT, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

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.

31 December 2017	Changes in relation to commodity prices \$'000	Effect on profit before tax \$'000
Aluminium	+5%	56
Aluminium	-5%	(56)
31 December 2016	Changes in relation to commodity prices \$'000	Effect on profit before tax \$'000
Aluminium	+5%	41
Aluminium	-5%	(41)

31. ACCOUNTING ESTIMATES AND JUDGEMENTS

Provision for bad debts

The Group has a policy of providing for trade receivables which are overdue by 60 days or more. It is management's judgement that where this is the case the whole debt relating to the customer is provided for even if not yet due, as the risk of default is considered high. The amount recorded as a provision for potential bad debts at 31 December 2017 was \$18,904 (2016 - \$13,031) for the Group and \$18,904 (2016 - \$12,031) for the Company.

Inventory provision

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

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

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

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

31. ACCOUNTING ESTIMATES AND JUDGEMENTS - continued

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 at 31 December 2017 was \$1,863,010 (2016 - \$1,994,237) for the Group and \$1,643,803 (2016 - \$1,648,216) 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 income statement.

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 24.

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Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

32. 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 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has no such liabilities.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

As at 31 December 2017 the Group has no such investments, and therefore these amendments did not affect the Group's financial statements.

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Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

33. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has completed the assessment of the impact of the adoption of IFRS 9 on its financial statements. The main aspects of the assessed impact are mentioned below:

Classification — Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income, and fair value through profit and loss. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Based on its assessment, it appears that the new classification requirements will have no material impact on its accounting for financial assets.

Impairment

IFRS 9 requires the Group to record expected credit losses on all of its financial instruments, amongst others, debts securities, loans and trade receivables, either on a 12-month or lifetime basis. Based on its assessment, it appears that the new requirements for impairments will have no material impact on its accounting for financial assets.

Hedge accounting

Under IFRS 9 the Group should ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy including a more qualitative and forward-looking approach to assessing hedge effectiveness. Based on its assessment, it appears the new requirements of IFRS 9 on hedge accounting will have no material impact of the accounting for its hedging relationships.

Disclosure

IFRS 9 will require extensive new disclosures, in particular hedge accounting, credit risk and the expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group believes the required data is captured.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as of 1 January 2018; and
- The new hedge accounting requirements should generally be applied prospectively. However, the Group has decided to apply the accounting for the forward element of forward contracts retrospectively.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

33. STANDARDS ISSUED BUT NOT YET EFFECTIVE - continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and several related interpretations. The new standard provides a single, principle based five-step model to be applied to all contracts with customers. Furthermore, it provides new guidance on whether revenue should be recognised at a point in time or over time. The Group has completed the assessment of the impact of the adoption of IFRS 15 on its financial statements. The main aspects of the assessed impact are mentioned below:

Goods Sold

For the sale of goods, revenue is currently recognised when the significant risks and rewards of ownership have been transferred to the customer. Provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. For sale of most goods the point in time at which revenue will be recognised is similar to the current standard. The Group's assessment indicates that the adoption of IFRS 15 will not have a material impact on revenue recognition for the majority of goods sold.

Commissions

For commissions earned by the Group, the Group has determined that it acts in the capacity of an agent for certain transactions. Under IFRS 15, the assessment will be based on whether the Group controls the specific goods before transferring them to the end customer, rather than whether it has exposure to significant risks and rewards associated with the sale of goods. Based on its assessment, the Group does not expect the application of IFRS 15 to result in a significant impact on its financial statements.

Transition

The Group plans to adopt 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). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

Annual Improvements 2014 – 2016 Cycle

The IASB issued the 2014-2016 cycle improvements to its standards and interpretations, primarily with a view to clarifying wording. These improvements cover the following standards and subjects.

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 financial years beginning on or after 1 January 2019, with certain transition reliefs permitted. Entities that are lessees are allowed to choose either a full retrospective or a modified retrospective transition approach. The Group has engaged in a detailed analysis of this standard and expects to have this completed in 2018. The Group plans to adopt the new standard on the required effective date.

IFRS 1 Retirements of short term exemptions

The amendments deleted short term exemptions covering transition provisions of IFRS 7, IAS 19, and IFRS 10. These transition provisions were available to entities for passed reporting periods and are therefore no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.

AMG Superalloys UK Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2017

33. STANDARDS ISSUED BUT NOT YET EFFECTIVE - continued

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

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Transfers of Investment Property (Amendments to IAS 40).
- Sales or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Investments in Associate or Joint Venture (Amendments to IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- IFRIC 23 Uncertainty over Income Tax Treatments.

The Group is assessing the potential effect of the amendments on its financial statements. The Group plans to adopt the new standards on the required effective date.

34. SUBSEQUENT EVENTS

The Company is party to AMG Advanced Metallurgical Company N.V.'s term and revolving credit facilities and has given fixed and floating charges over all its assets to participate in those Company banking facilities, as detailed in Note 26: Contingent Liabilities. As of 1 February 2018 AMG Advanced Metallurgical Company N.V. entered into new loan agreements totalling \$550m. This replaced the existing credit facility.