

**Kennametal UK Limited**  
**Annual report**  
**for the year ended 30 June 2009**

Registered number 3425094



# **Kennametal UK Limited**

## **Annual report for the year ended 30 June 2009**

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# **Kennametal UK Limited**

## **Directors and advisers**

### **Directors**

A P Godwin  
K C Dodd

### **Company secretary**

A P Godwin

### **Registered office**

P O Box 29  
Building 14  
The Pensnett Trading Estate  
Kingswinford  
West Midlands  
DY6 7NP

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

### **Bankers**

National Westminster Bank PLC  
5<sup>th</sup> Floor  
2 St Philips Place  
Birmingham  
B3 2RB

# **Kennametal UK Limited**

## **Directors' report for the year ended 30 June 2009**

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2009

### **Principal activity**

During the year, the principal activity of the company was the sale and distribution of industrial cutting tools

### **Review of business and future developments**

The company sells and distributes cutting tools to a wide range of customers and industries

The business environment is highly competitive and the company has differentiated itself from its competitors by focusing on high value added products, engineering application solutions, customer service and product quality and availability

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

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

Key measures of the effectiveness of the company's strategy include the percentage of new products developed each year

Turnover for the year was £30,533,000 (2008 £37,283,000), resulting in a profit on ordinary activities after taxation of £1,125,000 (2008 £410,000)

The directors expect the general level of activity to remain flat due to the current economic conditions

The slow down in current market conditions together with the corresponding slow down in the order book and number of new enquiries since the end of the financial year suggests difficult trading conditions for 2010. However, the directors believe that current actions and initiatives being taken will minimise this impact and provide stability for future growth

During the year the company sold the assets held for re-sale with the resultant loss of the 10 manufacturing jobs as this was not considered to be core business and was in line with its original acquisition expectations. Additionally, due to the economic downturn, the company reviewed its operational infrastructure and re-aligned it with sales turnover. This resulted in the loss of both clerical and sales related jobs and the resultant exceptional charge to profit and loss. The directors feel that this move was necessary in order to safeguard the future stability and growth of its core business activity within the UK. During the year, the company incurred exceptional operating costs of £413,000 (2008 £281,000) as a result of restructuring of the business as explained in Note 4

On 1<sup>st</sup> August 2009 the company acquired certain of the assets and liabilities of another UK Kennametal company based in Newport in South Wales. Their business is not linked to the main business activity in Kingswinford. The assets were acquired at their net book value

### **Key performance indicators (KPI's)**

As a result of the straightforward nature of the business, the company's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the business

### **Principal risks and uncertainties**

The management of the business and the execution of the company's strategy are subject to a number of risks

The key business risks and uncertainties affecting the company relate to increased competition, uncertainty in the manufacturing sector and economic instability

# **Kennametal UK Limited**

## **Directors' report for the year ended 30 June 2009 (continued)**

### **Financial risk management policies and procedures**

The company's operations expose it to a variety of financial risks that include price risk and credit risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company

The company's turnover is invoiced in pounds sterling and all of its operations and costs are likewise invoiced in pound sterling. Consequently movements in exchange rates do not have a significant impact on the performance of the company

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

### **Price risk**

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

### **Credit risk**

The company has policies that require appropriate credit checks on potential customers before sales are made.

### **Results and dividends**

The profit for the financial year is £1,125,000 (2008 £410,000). This has been transferred to reserves.

The directors do not recommend payment of dividend (2008 £Nil).

### **Directors**

The directors who served during the year and up to the date of signing of these financial statements are as follows:

K C Dodd (appointed 19 December 2008)

A P Godwin

D J Foster (appointed 24 September 2008, resigned 31 December 2008)

R R Brown (resigned 30 September 2008)

### **Disabled employees**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

### **Employee consultation**

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company.

# **Kennametal UK Limited**

## **Directors' report for the year ended 30 June 2009 (continued)**

### **Statement of directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

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

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

### **Statement of disclosure of information to auditors**

In the case of each director in office at the date the directors' report is approved under section 418 (2) of the Companies Act 2006, the following applies

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

### **Independent auditors**

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office. The directors have taken the decision to reappoint PricewaterhouseCoopers LLP as auditors to the company.

On behalf of the board



A P Godwin

Director

17 December 2009

## **Independent auditors' report to the members of Kennametal UK Limited**

We have audited the financial statements of Kennametal UK Limited for the year ended 30 June 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

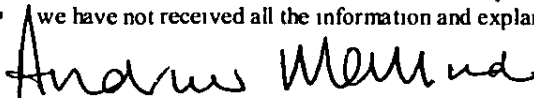
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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.



Andrew McMurdo (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham

22/12/09

## Kennametal UK Limited

### Profit and loss account for the year ended 30 June 2009

	Note	2009 £'000	2008 £'000
Turnover	2	30,533	37,283
Cost of sales		(23,547)	(30,787)
Gross profit		6,986	6,496
Operating expenses	3	(6,503)	(6,719)
Exceptional operating costs	3	(413)	(281)
Total operating expenses	3	(6,916)	(7,000)
Operating profit / (loss)		70	(504)
Interest receivable and similar income	5	65	17
Other finance income	19	990	897
Profit on ordinary activities before taxation	6	1,125	410
Tax on profit on ordinary activities	8	-	-
Profit for the financial year	16	1,125	410

There is no difference between the results as disclosed above and the results on a historical cost basis

The accompanying notes are an integral part of this profit and loss account.

The operating results relate to continuing activities



# Kennametal UK Limited

## Balance sheet as at 30 June 2009

	Note	2009 £'000	2008 £'000
<b>Fixed assets</b>			
Tangible assets	9	297	305
Investments	10	331	331
		<b>628</b>	636
<b>Current assets</b>			
Debtors	11	10,619	10,375
Cash at bank and in hand		278	234
Assets held for resale	12	-	300
		<b>10,897</b>	10,909
<b>Creditors amounts falling due within one year</b>	13	<b>(4,694)</b>	(5,163)
<b>Net current assets</b>		<b>6,203</b>	5,746
<b>Total assets less current liabilities</b>		<b>6,831</b>	6,382
<b>Creditors: amounts falling due after more than one year</b>	14	<b>(10)</b>	(10)
<b>Net assets excluding pension (deficit)/surplus</b>		<b>6,821</b>	6,372
Pension (deficit)/surplus	19	(3,943)	2,434
<b>Net assets including pension (deficit)/surplus</b>		<b>2,878</b>	8,806
<b>Capital and reserves</b>			
Called up share capital	15	29,661	29,661
Share premium account	16	27,990	27,990
Profit and loss reserve	16	(54,773)	(48,845)
<b>Total shareholders' funds</b>	17	<b>2,878</b>	8,806

The financial statements on pages 6 to 27 were approved by the board of directors on 17 December 2009 and signed on its behalf by



A P Godwin  
Director

Kennametal UK Limited  
Registered number 3425094

## **Kennametal UK Limited**

### **Statement of total recognised gains and losses for the year ended 30 June 2009**

	Note	2009 £'000	2008 £'000
Profit for the financial year		1,125	410
Actuarial loss on pension scheme	19	(7,053)	(5,155)
<b>Total losses recognised for the year</b>		<b>(5,928)</b>	<b>(4,745)</b>

# **Kennametal UK Limited**

## **Notes to the financial statements for the year ended 30 June 2009**

### **1 Accounting policies**

The principal accounting policies, all of which have been applied consistently throughout the year are

#### **Basis of accounting**

The accounts have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006

The company has taken advantage of the exemption from preparing consolidated accounts afforded by section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Kennametal GmbH (formerly Kennametal Hertel AG) which prepares consolidated accounts which are publicly available. The company is also, on this basis, exempt from the requirement of Financial Reporting Standard 1 (Revised 1996) – “Cash flow statements” to present a cash flow statement.

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life.

#### **Investments**

Investments held as fixed assets are stated at cost less provision for any impairment in value.

#### **Deferred taxation**

Deferred tax is provided on all timing differences in accordance with Financial Reporting Standard 19 “Deferred tax” and is recognised as a liability or an asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is measured at the rate expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted. Corporation tax payable is provided on taxable profits at the current rate.

#### **Foreign currencies**

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

#### **Pensions**

The company operates defined benefit pension schemes that are contracted out of the state scheme. The pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit method of valuation. The increase in the present value of the liabilities expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme assets and the increase during the year in present value of the schemes’ liabilities arising from the passing of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

# **Kennametal UK Limited**

## **Notes to the financial statements for the year ended 30 June 2009 (continued)**

### **1 Accounting policies (continued)**

#### **Pensions (continued)**

Pension costs have been calculated in accordance with Financial Reporting Standard 17 'Retirement benefits'

The company also operates a defined contribution scheme. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### **Leases**

Rentals paid under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

#### **Assets held resale**

Assets held for resale are stated at cost less provision for any impairment in value.

#### **Turnover**

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, Value Added Tax and other sales-related taxes. Turnover is recognised upon transfer of risk and reward to the purchaser, which is generally upon despatch of the product.

#### **Significant estimation techniques**

The following are the significant estimation techniques adopted by the company in the preparation of the financial statements:

#### ***Tangible fixed assets – depreciation rates***

The depreciation rates adopted are as follows:

Leasehold improvements	Over the life of the lease
Plant and machinery	5 to 15 years
Office equipment	12.5% - 33.3% per annum

Residual value is calculated on prices prevailing on the date of acquisition.

#### ***Bad debt provisions***

Provisions are based on a line by line review by management. Provision is made against any debts not considered recoverable.

### **2 Turnover**

The turnover and net profit are generated in the United Kingdom. The net assets of the company also arise in the United Kingdom. The company only has one class of business being the sale and distribution of industrial cutting tools.

# Kennametal UK Limited

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 3 Operating expenses

	2009	2008
	£'000	£'000
Selling and distribution costs	5,774	5,669
Administrative expenses	729	1,050
	6,503	6,719
Exceptional administrative expenses (Note 4)	413	281
<b>Total operating expenses</b>	<b>6,916</b>	<b>7,000</b>

### 4 Exceptional operating costs

The exceptional administrative costs of £413,000 (2008 £281,000) relate to redundancy related costs following a restructuring program implemented during the year

### 5 Interest receivable and similar income

	2009	2008
	£'000	£'000
Interest receivable on group cash pooling	65	17

### 6 Profit on ordinary activities before taxation is stated after charging:

	2009	2008
	£'000	£'000
Depreciation – owned assets	179	142
Operating lease rentals - plant	-	-
- other	478	516
Auditors' remuneration - audit services	39	45
- taxation services	19	22

# Kennametal UK Limited

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 7 Staff costs

The average monthly number of employees (including executive directors) during the year was as follows

	2009	2008
By activity	Number	Number
Administration and sales	105	127
Distribution and manufacturing	-	10
	105	137

Their aggregate remuneration comprised

	2009	2008
	£'000	£'000
Wages and salaries	4,167	5,302
Social security costs	435	480
Other pension costs (see note 19)	629	927
	5,231	6,709

#### Directors' remuneration

	2009	2008
	£'000	£'000
Aggregate emoluments	185	206

Retirement benefits are accruing to 2 directors (2008: 2 directors) under the company's defined benefit scheme. No payments were made to the defined contribution pension scheme for any of the directors.

#### Highest paid director

	2008
	£'000
Aggregate emoluments	118
Accrued lump sum under a defined benefit scheme	185
Accrued pension under a defined benefit scheme	30

# Kennametal UK Limited

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 8 Tax on profit on ordinary activities

The company has no United Kingdom corporation tax charge for the year the year ended 30 June 2009 (2008 £Nil)

#### Factors affecting the current year charge:

The tax assessed for the year is lower (2008 lower) than standard rate of corporation tax in the United Kingdom of 28% (2008 29.5%). The differences are explained below

	2009	2008
	£'000	£'000
<b>Profit on ordinary activities before tax</b>	<b>1,125</b>	<b>410</b>
Profit on ordinary activities multiplied by standard rate in the United Kingdom of 28% (2008 29.5%)	315	121
Effects of		
Expenses spread for tax purposes	(1,243)	(1,180)
Losses surrendered to group companies for no consideration	254	89
Difference between capital allowances and depreciation	50	(38)
Other timing differences	(189)	-
Losses not provided	813	1,008
<b>Current tax charge for the year</b>	<b>-</b>	<b>-</b>

Other than the availability of tax losses available for offset against future profits, there are no material factors that may affect future tax charges

No deferred tax balances are provided in these financial statements. The net unprovided deferred tax asset is as follows

	2009	2008
	£'000	£'000
Trading losses	8,966	8,452
Accelerated capital allowances	1,297	1,177
Other timing differences	135	104
Deferred tax asset/(liability) relating to the pension asset	1,104	(718)
	<b>11,502</b>	<b>9,015</b>

# Kennametal UK Limited

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 9 Tangible fixed assets

	Leasehold improvements	Plant and machinery	Office equipment	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 July 2008	168	578	343	1,089
Additions	-	162	39	201
Disposals	-	-	(83)	(83)
<b>At 30 June 2009</b>	<b>168</b>	<b>740</b>	<b>299</b>	<b>1,207</b>
<b>Accumulated depreciation</b>				
At 1 July 2008	166	305	313	784
Charge in the year	2	163	14	179
Disposals	-	-	(53)	(53)
<b>At 30 June 2008</b>	<b>168</b>	<b>468</b>	<b>274</b>	<b>910</b>
<b>Net book amount</b>				
<b>At 30 June 2009</b>	<b>-</b>	<b>272</b>	<b>25</b>	<b>297</b>
<b>At 30 June 2008</b>	<b>2</b>	<b>273</b>	<b>30</b>	<b>305</b>



## **Kennametal UK Limited**

### **Notes to the financial statements for the year ended 30 June 2009 (continued)**

#### **10 Investments**

##### **(a) Principal group investments**

<b>Name</b>	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Holding</b>	<b>%</b>
Kennametal Manufacturing UK Limited	England & Wales	Manufacturing	Ordinary shares	100
Kennametal Logistics UK Limited	England & Wales	Distribution	Ordinary shares	100
Widia UK Limited	England & Wales	Non-trading	Ordinary shares	100

##### **(b) Investments in subsidiary undertakings**

	<b>£'000</b>
<b>Cost and net book value at 1 July 2008 and 30 June 2009</b>	<b>331</b>

The directors consider the value of the investments to be supported by their underlying assets

## **Kennametal UK Limited**

### **Notes to the financial statements for the year ended 30 June 2009 (continued)**

#### **11 Debtors**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Due within one year		
Trade debtors	<b>5,853</b>	8,571
Amounts owed by group undertakings	<b>145</b>	391
Other debtors, prepayments and accrued income	<b>186</b>	193
	<b>6,184</b>	9,155
Due in more than one year		
Amounts owed by group undertakings	<b>4,435</b>	1,220
	<b>10,619</b>	10,375

The amounts owed by group undertakings have no scheduled repayment date and are non-interest bearing.

#### **12 Assets held for resale**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Assets held for resale	-	300

#### **13 Creditors: amounts falling due within one year**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Trade creditors	<b>265</b>	306
Amounts owed to group undertakings	<b>2,543</b>	1,919
Other taxation and social security	<b>332</b>	243
Other creditors	<b>1,554</b>	2,695
	<b>4,694</b>	5,163

The amounts owed to group undertakings have no scheduled repayment date and are non-interest bearing.

# Kennametal UK Limited

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 14 Creditors: amounts falling due after more than one year

	2009	2008
	£'000	£'000
Amounts owed to group undertakings	10	10

There are no fixed terms for repayment of amounts owed to group undertakings after more than one year

### 15 Called up share capital

	2009	2008
	£'000	£'000
<b>Authorised</b>		
50,000,000 ordinary shares of £1 each	50,000	50,000
<b>Allotted and fully paid</b>		
29,661,002 (2008 29,661,002) ordinary shares of £1 each	29,661	29,661

### 16 Reserves

	Share premium account	Profit and loss reserve
	£'000	£'000
At 1 July 2008	27,990	(48,845)
Profit for the financial year	-	1,125
Actuarial loss on pension schemes	-	(7,053)
<b>At 30 June 2009</b>	<b>27,990</b>	<b>(54,773)</b>

# Kennametal UK Limited

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 17 Reconciliation of movement in total shareholders' funds

	2009	2008
	£'000	£'000
Profit for the financial year	1,125	410
Actuarial loss on pension schemes	(7,053)	(5,155)
Net decrease in shareholders' funds	(5,928)	(4,745)
Opening shareholders' funds	8,806	13,551
Closing shareholders' funds	2,878	8,806

### 18 Other financial commitments

#### Operating leases

Annual commitments under non-cancellable operating leases are as follows

	2009		2008	
	Land & buildings	Other £'000	Land & buildings	Other
	£'000		£'000	£'000
Leases expiring				
- within one year	113	10	205	27
- between two and five years	49	233	-	238
	162	243	205	265

## Kennametal UK Limited

### Notes to the financial statements for the year ended 30 June 2009 (continued)

#### 19 Pension arrangements

The group provides pension arrangements for the majority of full time employees through various pension schemes, the Kennametal Pension Fund, the Presto Pension Scheme, the Cleveland Europe Limited Pension Scheme, the Widia Valenite Pension Plan and the Presto Pension Investment Plan. All schemes are funded defined benefit schemes with the exception of the Presto Pension Investment Plan which is a defined contribution scheme. The related costs are assessed in accordance with the advice of professionally qualified independent actuaries.

The Principal Employer of all the schemes has now been changed to Kennametal UK Limited. On 1 July 2002, the Kennametal Pension Fund and the Presto Pension Scheme were merged to form the Kennametal Defined Benefit Pension Scheme. On 1 February 2005, the Widia Valenite Pension Plan was merged into the Kennametal Defined Benefit Pension Scheme.

#### Defined benefit schemes

All of the defined benefit schemes are closed to new entrants and as the members of the scheme approach retirement age, the service cost is expected to increase annually. A full actuarial valuation of the pension scheme, using the projected unit basis, was carried out at 1 July 2006 by an independent qualified actuary. The major assumptions used by the actuary were:

	1 July 2006
- pre-retirement investment return	5.75%
- post-retirement investment return	5.25%
- pre-retirement discount rate	5.75%
- post-retirement discount rate	5.25%
- the inflation assumption	3.00%
- rate of increase in salaries	4.25%
- rate of increase in pensions in payment	3.00%

Details of the most recent full actuarial valuations of each of the schemes are shown in the table below:

	Kennametal Defined Benefit Pension Scheme	Cleveland Europe Limited Pension Scheme
Assets of the scheme as at last valuation date	£45,053,000	£9,876,000
Funding level on ongoing basis	118%	108%

The pension service cost charge in respect of the defined benefit schemes for the year was £314,000 (2008 £897,000).

The outstanding contributions payable to the schemes at the year end were £Nil (2008 £Nil).

# Kennametal UK Limited

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 19 Pension arrangements (continued)

#### Defined contribution scheme

The company also operates a self administered defined contribution pension scheme. The pension charge for the year in respect of this scheme was £315,424 (2008: £30,000). The amount of contributions outstanding at the year end were £32,714 (2008: £3,533).

#### Additional disclosures required under Financial Reporting Standard 17 "Retirement Benefits" (FRS17)

Additional disclosures regarding the company's defined benefit pension schemes are required under FRS17 "Retirement benefits" and these are set out below.

The actuarial valuations described above have been updated at 30 June 2009 by a qualified actuary, AON Consulting, using revised assumptions that are consistent with the requirements of FRS17. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the actuarial valuations of the schemes were:

	At 30 June 2009	At 30 June 2008
- the inflation assumption	3.65%	4.0%
- rate of increase in salaries	N/A	5.25%
- rate of increase in pensions in payment and deferred pensions	3.65%	4.0%
- discount rate used for scheme liabilities	6.25%	6.75%
- expected return on scheme assets at 30 June	7.48%	8.28%
- Mortality	PA92MC+ 2 years	PA92MC+ 2 years

#### Longevity at 65

	At 30 June 2009	At 30 June 2008
- Active - Males	N/A	85.7
- Active - Females	N/A	88.7
- Deferred - Males	86.3	85.7
- Deferred - Females	59.8	88.7
- Pensioners - Males	84.8	84.8
- Pensioners - Females	87.8	87.8

# Kennametal UK Limited

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 19 Pension arrangements (continued)

The fair value of the scheme assets, the expected rate of return at the balance sheet date, the present value of the scheme liabilities and net pension liability relating to the Kennametal Defined Benefit Pension Scheme can be analysed as follows

The Kennametal Defined Benefit Pension Scheme						
	Value at 30 June 2009	Expected rate of return	Value at 30 June 2008	Expected rate of return	Value at 30 June 2007	Expected rate of return
	£'000	%	£'000	%	£'000	%
Equities	21,460	8.7	24,711	9.5	29,655	9.0
Fixed interest bonds	12,549	5.2	13,016	6.0	15,159	5.0
Other	-	3.65	-	4.5	239	4.5
Total market value of assets	34,009		37,727		45,053	
Present value of scheme liabilities	(38,019)		(35,913)		(38,197)	
(Deficit)/surplus in scheme	(4,010)		1,814		6,856	
Related deferred tax asset/(liability) (unrecognised)	1,123		(508)		(2,057)	
Net pension (deficit)/surplus	(2,887)		1,306		4,799	

The related deferred tax asset/(liability) has not been recognised as the company has significant tax losses carried forward which would offset any liability arising.

The amounts recognised in the profit and loss account are as follows

	2009	2008
	£'000	£'000
Current service cost	264	847
Expected return on pension scheme assets	(3,276)	(3,017)
Interest on pension scheme liabilities	2,388	2,170
Total	(624)	-

The expected return on assets in 2008 was restricted due to the unrecognisable surplus

# Kennametal UK Limited

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 19 Pension arrangements (continued)

Changes in the present value of the scheme liabilities are as follows:

	2009	2008
	£'000	£'000
Opening defined benefit liability	35,913	38,198
Current service cost	264	847
Employee contributions	92	295
Interest cost	2,388	2,170
Actuarial losses/(gains)	1,959	(2,956)
Past service costs	-	649
Gains on curtailment	-	(1,667)
Benefits paid	(2,153)	(1,351)
Expenses paid	(427)	(210)
Premiums paid	(17)	(62)
	38,019	35,913

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

	2009	2008
	£'000	£'000
Opening fair value of scheme assets	37,727	45,054
Expected return	3,276	3,017
Actuarial losses	(6,886)	(6,619)
Contributions by members	92	295
Restriction in recoverable surplus by paragraph 41 of FRS 17	2,397	(2,397)
Benefits paid	(2,153)	(1,351)
Expenses paid	(427)	(210)
Premiums paid	(17)	(62)
	34,009	37,727

During the year, the company did not make any contributions to the scheme



# Kennametal UK Limited

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 19 Pension arrangements (continued)

The amounts recognised in the statement of total recognised gains and losses are as follows:

	2009	2008
	£'000	£'000
Actuarial losses	(8,845)	(3,663)
Gain on curtailment and past service cost not recognised under paragraph 41	-	1,018
Restriction in recoverable surplus by paragraph 41	2,397	(2,397)
<b>Total amount recognised in the STRGL in the year</b>	<b>(6,448)</b>	<b>(5,042)</b>
	2009	2008
	£'000	£'000
Opening cumulative actuarial losses recognised in the STRGL	(8,499)	(3,457)
Total amount recognised in the STRGL in the year	(6,448)	(5,042)
<b>Net cumulative actuarial losses recognised in the STRGL</b>	<b>(14,947)</b>	<b>(8,499)</b>

### Historical pension scheme information

	Financial year ending				
	2009	2008	2007	2006	2005
	£'000	£'000	£'000	£'000	£'000
Scheme asset	34,009	37,727	45,053	42,472	22,579
Defined benefit liability	(38,019)	(35,913)	(38,197)	(39,711)	(36,515)
(Deficit)/surplus	(4,010)	1,814	6,856	2,761	(13,936)
Experience gains and losses arising on the scheme assets	(6,886)	(9,016)	704	1,971	1,837
- as a percentage of scheme assets	(20%)	(24%)	2%	5%	8%
Experience gains and losses arising on the scheme liabilities	(1,959)	2,956	3,112	(1,870)	(4,595)
- as a percentage of the present value of scheme liabilities	(5%)	8%	8%	(5%)	(14%)
Total amount recognised in the statement of total recognised gains and losses	(6,448)	(5,042)	3,816	101	(2,758)
- as a percentage of the present value of scheme liabilities	(17%)	(14%)	10%	0%	(8%)

## Kennametal UK Limited

### Notes to the financial statements for the year ended 30 June 2009 (continued)

#### 19 Pension arrangements (continued)

The fair value of the scheme assets, the expected rate of return at the balance sheet date, the present value of the scheme liabilities and net pension liability relating to Cleveland Europe Limited Pension Scheme can be analysed as follows

The Cleveland Europe Limited Pension Scheme						
	Value at 30 June 2009	Expected rate of return	Value at 30 June 2008	Expected rate of return	Value at 30 June 2007	Expected rate of return
	£'000	%	£'000	%	£'000	%
Equities	2,858	8.7%	3,059	9.5%	3,509	9.0%
Fixed interest bonds	5,549	5.2%	5,965	6.0%	6,304	5.0%
Other	-	3.25%	-	4.5%	63	4.5%
Total market value of assets	8,407		9,024		9,876	
Present value of scheme liabilities	(8,340)		(8,404)		(9,141)	
Surplus in the scheme	67		620		735	
Related deferred tax liability (unrecognised)	(19)		(174)		(220)	
Net pension surplus	48		446		515	

The related deferred tax liability has not been recognised as the company has significant tax losses carried forward which would offset any liability arising.

The amounts recognised in the profit and loss account are as follows

	2009	2008
	£'000	£'000
Current service cost	50	50
Expected return on pension scheme assets	(653)	(563)
Interest on pension scheme liabilities	551	513
Total	(52)	-

The expected return on assets in 2008 was restricted due to the unrecognisable surplus

## **Kennametal UK Limited**

### **Notes to the financial statements for the year ended 30 June 2009 (continued)**

#### **19 Pension arrangements (continued)**

Changes in the present value of the scheme liabilities are as follows

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Opening defined benefit liability	<b>8,404</b>	<b>9,141</b>
Service cost	<b>50</b>	<b>50</b>
Interest cost	<b>551</b>	<b>513</b>
Actuarial gains	<b>(14)</b>	<b>(821)</b>
Benefits paid	<b>(453)</b>	<b>(405)</b>
Expenses paid	<b>(198)</b>	<b>(74)</b>
	<b>8,340</b>	<b>8,404</b>

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Opening fair value of scheme assets	<b>9,024</b>	<b>9,876</b>
Expected return	<b>653</b>	<b>563</b>
Actuarial losses	<b>(897)</b>	<b>(658)</b>
Restriction in recoverable surplus by paragraph 41 of FRS 17	<b>278</b>	<b>(278)</b>
Benefits paid	<b>(453)</b>	<b>(405)</b>
Expenses paid	<b>(198)</b>	<b>(74)</b>
	<b>8,407</b>	<b>9,024</b>

During the year, the company did not make any contributions to the scheme

# Kennametal UK Limited

## Notes to the financial statements for the year ended 30 June 2009 (continued)

### 19 Pension arrangements (continued)

The amounts recognised in the statement of total recognised gains and losses are as follows:

	2009	2008
	£'000	£'000
Actuarial (losses)/gain	(883)	163
Restriction in recoverable surplus by paragraph 41	278	(278)
<b>Total amount recognised in the STRGL in the year</b>	<b>(605)</b>	<b>(115)</b>
	2009	2008
	£'000	£'000
Opening cumulative actuarial losses recognised in the STRGL	(2,077)	(1,962)
Total amount recognised in the STRGL in the year	(605)	(115)
<b>Net cumulative actuarial losses recognised in the STRGL</b>	<b>(2,682)</b>	<b>(2,077)</b>

### Historical pension scheme information

	Financial year ended				
	2009	2008	2007	2006	2005
	£'000	£'000	£'000	£'000	£'000
Scheme asset	8,407	9,024	9,876	9,914	6,443
Defined benefit liability	(8,340)	(8,404)	(9,141)	(9,625)	(10,446)
Surplus/(deficit)	67	620	735	289	(4,003)
Experience gains and losses arising on the scheme assets	(897)	(937)	(174)	148	461
- as a percentage of scheme assets	(11%)	(10%)	(2%)	1%	7%
Experience gains and losses arising on the scheme liabilities	14	822	531	906	(1,952)
- as a percentage of the present value of scheme liabilities	0%	10%	6%	9%	(19%)
Total amount recognised in the statement of total recognised gains and losses	(605)	(115)	357	1,054	(1,491)
- as a percentage of the present value of scheme liabilities	(7%)	(1%)	4%	11%	(14%)

## **Kennametal UK Limited**

### **Notes to the financial statements for the year ended 30 June 2009 (continued)**

#### **20 Post balance sheet events**

On 1<sup>st</sup> August 2009 the company acquired certain of the assets and liabilities of another UK Kennametal company based in Newport in South Wales. Their business is not linked to the main business activity in Kingswinford. The assets were acquired at their net book value.

#### **21 Related party transactions**

The company has taken advantage of the exemption in Financial Reporting Standard 8 – “Related party disclosures” that transactions with group entities are not disclosed as all of the voting rights of the company are held within the group headed by Kennametal Inc, and the consolidated accounts of Kennametal Inc, are available to the public. There are no other related party transactions requiring disclosure under Financial Reporting Standard 8 – “Related party disclosure”.

#### **22 Ultimate parent undertaking and controlling party**

The company is a wholly owned subsidiary undertaking of Kennametal GmbH (formerly Kennametal Hertel AG), incorporated in Germany.

The smallest and largest group into which the results of the company are consolidated is that headed by the ultimate parent undertaking and controlling party, Kennametal Inc, incorporated in the United States of America. The consolidated accounts of the group are available from Kennametal Inc, State Route 981, South Westmoreland County Airport, PA 15650, United States of America.