

Kennametal UK Limited
Annual report and financial statements
for the year ended 30 June 2015

Registered number: 3425094

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Kennametal UK Limited

Annual report and financial statements for the year ended 30 June 2015

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Kennametal UK Limited

Directors and advisers

Directors

A P Godwin
N Walker

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
5th Floor
2 St Philips Place
Birmingham
B3 2RB

Kennametal UK Limited

Strategic report for the year ended 30 June 2015

The directors present their strategic report of the company for the year ended 30 June 2015.

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 add 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 at the wider Kennametal Group level, which the company can benefit from. 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 £43,626,000 (2014: £45,823,000), resulting in a loss for the financial year of £6,421,000 (2014: loss of £306,000). The significant increase in the loss for the year is due to the exceptional operating expense of £6,424,000 (2014: nil) recognised in respect of the impairment the investment in a subsidiary company. Further details are provided in note 4.

The position of the company at 30 June 2015 is detailed on page 11.

The directors expect the general level of activity to retract marginally over the forthcoming 12 months due to pricing pressures from intensified competition and raw material reductions as well as uncertainty in economic conditions in both the Euro zone and UK. They believe that due to responsive actions taken during this financial year of increased market focus and cost to serve alignment the company is positioned to take advantage of any economic upturn in order to both continue to serve its end user customers to the expected high standards required and to also grow market share through focused selling initiatives. The outlook is challenging but opportunities are available and we believe we are strongly positioned to offer a complete competitive solution that will satisfy our customers, both current and potential.

Key performance indicators (KPI's)

The primary KPI used by management is growth in turnover. However during 2015, revenue reduced by 4.8% (2014: reduced by 3.2%) to £43,626,000 (2014: £45,823,000). This revenue reduction was directly as a result of continued product portfolio management with the underlying core product base increasing over prior year as a result of continued intensified focus on market segments as well as leveraging both global and European supply agreements.

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

Principal risks and uncertainties

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

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

Kennametal UK Limited

Strategic report for the year ended 30 June 2015 (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 Pounds 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 would exceed any potential benefits.

Credit risk

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

On behalf of the Board



A P Godwin
Director

24 March 2016

Kennametal UK Limited

Directors' report for the year ended 30 June 2015

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2015.

Principal activities

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

Review of business and future developments

Review of the business and future developments are discussed in the strategic report.

Financial risk management policies and procedures

Financial risk management policies and procedures are discussed in the strategic report.

Dividends

The directors have not recommended the payment of a dividend in the year (2014: £Nil).

Directors

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

A P Godwin

N Walker

Directors' indemnities

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

Disabled employees

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

Employee consultation

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

Kennametal UK Limited

Directors' report for the year ended 30 June 2015 (continued)

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, 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 prepared 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 accordance with Section 418, each director in office at the date the directors' report is approved, confirms that:

- (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 the steps that he ought to have taken as a director in order to make himself aware of any relevant audit 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 independent auditors, PricewaterhouseCoopers LLP, are deemed to be reappointed under section 487(2) of the Companies Act 2006.

On behalf of the Board



A P Godwin
Director

24 March 2016

Independent auditors' report to the members of Kennametal UK Limited

Report on the financial statements

Our opinion

In our opinion, Kennametal UK Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 June 2015 and of its loss 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.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 30 June 2015;
- the profit and loss account and statement of total recognised gains and losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Kennametal UK Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & 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 Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



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

24 March 2016

Kennametal UK Limited

Profit and loss account for the year ended 30 June 2015

	Note	2015 £'000	2014 £'000
Turnover	2	43,626	45,823
Cost of sales		(35,856)	(37,624)
Gross profit		7,770	8,199
Exceptional operating expenses	4	(6,424)	-
Non exceptional operating expenses		(7,676)	(7,471)
Operating expenses	3	(14,100)	(7,471)
Operating (loss)/profit	4	(6,330)	728
Interest receivable and similar income	5	14	16
(Loss)/profit on ordinary activities before taxation		(6,316)	744
Tax on (loss)/profit on ordinary activities	7	(105)	(1,050)
Loss for the financial year	15	(6,421)	(306)

All results derive from continuing activities.

There is no material difference between the (loss)/profit on ordinary activities before taxation and the loss for the financial years stated above and their historical costs equivalents.

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

Kennametal UK Limited

Balance sheet as at 30 June 2015

	Note	2015 £'000	2014 £'000
Fixed assets			
Intangible assets	9	11	15
Tangible assets	8	158	210
Investments	10	329	6,753
		498	6,978
Current assets			
Debtors: amounts falling due within one year	11	10,459	11,954
Debtors: amounts falling due after more than one year	11	10,355	10,121
Cash at bank and in hand		193	260
		21,007	22,335
Creditors: amounts falling due within one year	12	(5,307)	(5,845)
Net current assets		15,700	16,490
Total assets less current liabilities		16,198	23,468
Provision for liabilities	13	(336)	(336)
Net assets excluding pension surplus		15,862	23,132
Pension surplus	18	-	-
Net assets including pension surplus		15,862	23,132
Capital and reserves			
Called up share capital	14	29,661	29,661
Share premium account	15	37,167	37,167
Profit and loss account	15	(50,966)	(43,696)
Total shareholders' funds	16	15,862	23,132

The financial statements on pages 10 to 31 were approved by the board of directors on 24 March 2016 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 2015

	Note	2015 £'000	2014 £'000
Loss for the financial year		(6,421)	(306)
Actuarial loss on pension scheme	18	(1,071)	(400)
Current tax deductions allocated to actuarial losses		222	80
Total recognised gains and losses relating to the year		(7,270)	(626)

Kennametal UK Limited

Notes to the financial statements for the year ended 30 June 2015

1. Accounting policies

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

Basis of accounting

The financial statements 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 financial statements afforded by section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Kennametal GmbH which prepares consolidated financial statements 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.

Turnover

Turnover represents amounts receivable for goods 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.

Tangible fixed assets

Tangible fixed assets are stated at historic purchase 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. The useful economic life for each class of asset is as follows:

Leasehold improvements	- over period of the lease
Plant & machinery	- 3 to 5 years
Office equipment	- 3 to 8 years

Goodwill

Goodwill arising on acquisitions has been capitalised and is being amortised over a period of 20 years, being the period expected to benefit. The company evaluates the carrying value of goodwill in each financial year to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

Fixed asset investments

Fixed asset investments held as fixed assets are stated at cost less provision for any impairment in value. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

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.

Notes to the financial statements for the year ended 30 June 2015 (continued)

1 Accounting policies (continued)

Pensions

The company operates defined benefit pension schemes that are contracted out of the state scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension scheme assets are measured using bid 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. Pension costs have been calculated in accordance with Financial Reporting Standard 17 'Retirement benefits' ("FRS 17").

The company does not recognise a surplus on the scheme. The recoverability of the surplus is based on the present value of the FRS17 service cost over the future working lifetime of active members. Given that the Scheme is closed to future accrual, the service cost would be zero. Therefore none of the surplus is deemed to be recoverable.

The irrecoverable surplus also has an impact on the FRS 17 pension cost for the year and the Statement of recognised gains and losses:

- The Statement of recognised gains and losses for the year is adjusted for the change in irrecoverable surplus since the beginning of the year.
- The expected return on assets in the FRS 17 pension cost for the current year and the coming year are restricted to the extent required to keep the expense recognised in the profit and loss account subject to a minimum of zero.

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.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not discounted.

2. Turnover

The origin and destination of turnover is all in the UK. 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.

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Notes to the financial statements for the year ended 30 June 2015 (continued)

3. Operating expenses

	2015	2014
	£'000	£'000
Non exceptional administrative expenses	942	903
Exceptional administrative expenses (note 4)	6,424	-
Administrative expenses	7,366	903
Distribution costs	6,734	6,568
Total operating expenses	14,100	7,471

4. Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):	2015	2014
	£'000	£'000
Exceptional operating costs (see below)	6,424	-
Depreciation on owned tangible fixed assets	77	95
Amortisation of goodwill	4	2
(Gain)/loss on disposal of fixed assets	(17)	1
Operating leases – other than plant and machinery	418	413
Foreign currency loss	38	148
Services provided by the company's auditors		
Fees payable for the audit	55	55
Fees payable for other services – tax compliance	28	28

Exceptional operating costs

The exceptional operating costs of £6,424,000 relates to the impairment of the investment in Kennametal Sintec Keramik UK Limited (note 10). The investment has been impaired because the net assets of Kennametal Sintec Keramik UK Limited are no longer sufficient to support the carrying value of the investment.

5. Interest receivable and similar income

	2015	2014
	£'000	£'000
Other interest receivable	14	16

Kennametal UK Limited

Notes to the financial statements for the year ended 30 June 2015 (continued)

6. Staff costs

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

By activity	2015 Number	2014 Number
Administration, sales and distribution	110	104
Their aggregate remuneration comprised:	2015 £'000	2014 £'000
Wages and salaries	4,178	3,970
Social security costs	542	518
Other pension costs (see below)	445	429
	5,165	4,917
Other pension costs comprise:		
Contributions to defined contribution scheme	445	429
Current service cost in respect of the defined benefit scheme (see note 18)	-	-
	445	429
Directors' remuneration	2015 £'000	2014 £'000
Aggregate emoluments	233	221
Retirement benefits are accruing to 2 directors (2014: 2 directors) under the company's defined benefit scheme. Aggregated payments of £26,000 (2014: £24,000) were made to the defined contribution pension scheme for these directors.		
Highest paid director:	2015 £'000	2014 £'000
Aggregate emoluments	121	115
Accrued pension under a defined benefit scheme	15	15

Aggregated payments of £13,000 (2014: £11,000) were made to the defined contribution pension scheme for this director.

Kennametal UK Limited

Notes to the financial statements for the year ended 30 June 2015 (continued)

7. Tax on (loss)/profit on ordinary activities

	2015 £'000	2014 £'000
Current tax:		
United Kingdom corporation tax on (loss)/profit for the year	132	84
Deferred tax:		
Change in tax rate	-	975
Origination and reversal of timing differences	(27)	(9)
Total deferred tax (note 13)	(27)	966
Total tax on (loss)/profit on ordinary activities	105	1,050
Factors affecting the current year charge:		
The tax assessed for the year is higher (2014: lower) than standard rate of corporation tax in the United Kingdom of 20.75% (2014: 22.5%). The differences are explained below:		
	2015 £'000	2014 £'000
(Loss)/profit on ordinary activities before taxation	(6,316)	744
(Loss)/profit on ordinary activities multiplied by standard rate in the United Kingdom of 20.75% (2014: 22.5%)	(1,311)	167
Effects of:		
Expenses not deductible for tax purposes	1,437	14
Difference between capital allowances and depreciation	(5)	9
Group relief claimed – for no payment	-	(97)
Losses carried forward / (utilised)	11	(9)
Total current tax charge	132	84
Tax on recognised gains and losses not included in the profit and loss account:		
	2015 £'000	2014 £'000
UK corporation tax at 20.75% (2014: 22.5%)		
Current tax deductions allocated to actuarial losses	(222)	(80)

Kennametal UK Limited

Notes to the financial statements for the year ended 30 June 2015 (continued)

7. Tax on (loss)/profit on ordinary activities (continued)

Factors affecting future tax charges:

During the year, the UK corporation tax rate reduced from 21% to 20% from 1 April 2015 and will reduce to 18% from 1 April 2016. The future change has not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements.

As a result the effective tax rate for the year is 20.75% (2014: 22.5%) and the rate at which the unrecognised deferred tax is calculated is 20% (2014: 20%).

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

8. Tangible assets

	Leasehold improvements	Plant and machinery	Office equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 July 2014	163	948	303	1,414
Additions	-	24	1	25
Disposals	-	(540)	(32)	(572)
At 30 June 2015	163	432	272	867
Accumulated depreciation				
At 1 July 2014	163	776	265	1,204
Charge in the year	-	46	31	77
Disposals	-	(540)	(32)	(572)
At 30 June 2015	163	282	264	709
Net book amount				
At 30 June 2015	-	150	8	158
At 30 June 2014	-	172	38	210

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Notes to the financial statements for the year ended 30 June 2015 (continued)

9. Intangible assets

	Goodwill £'000
Cost at 1 July 2014 and 30 June 2015	23
Accumulated amortisation	
At 1 July 2014	8
Charge in the year	4
At 30 June 2015	12
Net book amount	
At 30 June 2015	11
At 30 June 2014	15

This represents the value of goodwill transferred following the UK group reorganisation of another Kennametal UK company on 1st September 2009. Goodwill is included only to the extent that it was acquired for valuable consideration, and only at purchase price, less any applicable amortisation.

10. Investments

(a) Group investments

Name	Country of incorporation	Principal activity	Holding	%
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
Kennametal Sintec Keramik UK Limited	England & Wales	Non-trading	Ordinary shares	100

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Notes to the financial statements for the year ended 30 June 2015 (continued)

10 Investments (continued)

b) Investments in subsidiary undertakings

	£'000
Cost at 1 July 2014 and 30 June 2015	9,508
Impairments	
At 1 July 2014	2,755
Impairment in the year	6,424
At 30 June 2015	9,179
Net book amount at 30 June 2015	329
Net book amount at 30 June 2014	6,753

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

11. Debtors

	2015 £'000	2014 £'000
Amounts falling due within one year:		
Trade debtors	9,004	10,835
Amounts owed by group undertakings	1,120	858
Prepayments and accrued income	335	261
	10,459	11,954
Amounts falling due after more than one year:		
Amounts owed by group undertakings	3,487	3,280
Deferred tax asset (note 13)	6,868	6,841
	10,355	10,121
	20,814	22,075

The amounts owed by group undertakings are unsecured, have no scheduled repayment date and are non-interest bearing. Confirmation has been received from the relevant group company that £3,487,000 (2014: £3,280,000) will not be settled within one year.

Kennametal UK Limited

Notes to the financial statements

for the year ended 30 June 2015 (continued)

12. Creditors: amounts falling due within one year

	2015 £'000	2014 £'000
Trade creditors	185	388
Amounts owed to group undertakings	3,466	3,772
Taxation and social security	825	735
Other creditors	831	950
	5,307	5,845

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

13. Provisions for liabilities

	Environmental £'000	Deferred tax £'000	Total £'000
At the beginning of the year	336	(6,841)	(6,505)
Credited to profit and loss account	-	(27)	(27)
At the end of the year	336	(6,868)	(6,532)
Included within debtors (note 11)	-	(6,868)	(6,868)
Included within provisions for liabilities	336	-	336

Environmental

The provision relates to the obligations in respect of environmental clean-up requirements that the company will be required to make. The environmental provision will be utilised after more than one year.

Kennametal UK Limited

Notes to the financial statements

for the year ended 30 June 2015 (continued)

13. Provision for liabilities (continued)

Deferred taxation

The movement on the deferred tax asset is as follows:

	2015 £'000	2014 £'000
At 1 July	(6,841)	(7,807)
(Credited)/charged to profit and loss account (note 7)	(27)	966
At 30 June	(6,868)	(6,841)

The total deferred taxation asset assessed at 20% (2014: 20%) is as follows:

	2015 £'000	2014 £'000
Trading losses	5,934	5,946
Accelerated capital allowances	934	895
	6,868	6,841
Amount recognised	6,868	6,841

The net deferred tax asset has been recognised due to the certainty of future taxable profits and the fact that the company has established a track record of taxable profits over prior years.

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Notes to the financial statements for the year ended 30 June 2015 (continued)

14. Called up share capital

	2015	2014
	£'000	£'000
Authorised		
50,000,000 (2014: 50,000,000) ordinary shares of £1 each	50,000	50,000
Allotted and fully paid		
29,661,012 (2014: 29,661,012) ordinary shares of £1 each	29,661	29,661

15. Reserves

	Share premium account	Profit and loss account
	£'000	£'000
At 1 July 2014	37,167	(43,696)
Loss for the financial year	-	(6,421)
Net actuarial loss on pension scheme	-	(849)
At 30 June 2015	37,167	(50,966)

16. Reconciliation of movements in total shareholders' funds

	2015	2014
	£'000	£'000
Loss for the financial year	(6,421)	(306)
Actuarial loss on pension schemes	(849)	(320)
Net decrease in total shareholders' funds	(7,270)	(626)
Opening total shareholders' funds	23,132	23,758
Closing total shareholders' funds	15,862	23,132

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Notes to the financial statements for the year ended 30 June 2015 (continued)

17. Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	2015		2014	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Leases expiring:				
- within one year	128	97	90	82
- between two and five years	118	47	-	195
	246	144	90	277

18. Pension arrangements

The company provides pension arrangements for the majority of full time employees through various pension schemes; the Kennametal Pension Scheme, which is a funded defined benefit schemes. The related costs are assessed in accordance with the advice of professionally qualified independent actuaries. The Principal Employer of the scheme is Kennametal UK Limited.

On 31 March 2015, the Deloro Stellite Pension Plan was merged into the Kennametal Defined Benefit Pension Scheme on a sectionalised basis. The value of the pension obligations transferred was £14,430,000 and the value of the pension assets was £15,092,000 and therefore on an accounting basis the merger improved the funded status of the scheme by £662,000 before the application of restrictions under paragraph 41 of FRS 17.

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.

The pension service cost charge in respect of the defined benefit schemes for the year was £Nil (2014: £Nil) as the Scheme is closed to future accrual.

The outstanding contributions payable to the schemes at the year-end were £Nil (2014: £Nil).

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Notes to the financial statements

for the year ended 30 June 2015 (continued)

18. Pension arrangements (continued)

Defined benefit schemes

A full actuarial valuation of the Kennametal Defined Benefit Pension Scheme, using the projected unit basis, was carried out at 1 July 2012 by an independent qualified actuary. The major assumptions used by the actuary were:

	1 July 2012
- pre-retirement investment return	5.20%
- post-retirement investment return	3.40%
- pre-retirement discount rate	1.90%
- post-retirement discount rate	1.90%
- the inflation assumption (Retail Price Index)	2.60%
- the inflation assumption (Consumer Price Index)	1.90%
- rate of increase in pensions in payment	1.90%

A full actuarial valuation of the Deloro Stellite Defined Benefit Pension Scheme, using the projected unit basis, was carried out at 31 March 2013 by an independent qualified actuary. The major assumptions used by the actuary were:

	31 March 2013
- pre-retirement investment return	5.00%
- post-retirement investment return	5.00%
- pre-retirement discount rate	4.50%
- post-retirement discount rate	4.50%
- the inflation assumption (Retail Price Index)	3.30%
- the inflation assumption (Consumer Price Index)	2.40%
- rate of increase in pensions in payment	3.00%

Kennametal UK Limited

Notes to the financial statements for the year ended 30 June 2015 (continued)

18. Pension arrangements (continued)

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

	Kennametal Defined Benefit Pension Scheme	Deloro Stellite Defined Benefit Pension Scheme
Assets of the scheme as at last valuation date	£53,300,000	£13,118,000
Funding level on on-going basis	95%	92%

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 £445,000 (2014: £429,000). The contributions outstanding at the year-end were £Nil (2014: £nil).

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 2015 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 scheme were:

	At 30 June 2015	At 30 June 2014
- the inflation assumption (retail price index)	3.10%	3.30%
- the inflation assumption (consumer price index)	2.10%	2.30%
- rate of increase in pensions in payment and deferred pensions	3.00%	3.20%
- discount rate used for scheme liabilities	3.60%	4.30%
- expected return on scheme assets at 30 June	6.00%	6.00%
- Mortality	PNA00MC + 3 years, U/pin of 1%	PNA00MC + 3 years, U/pin of 1%

Kennametal UK Limited

Notes to the financial statements for the year ended 30 June 2015 (continued)

18. Pension arrangements (continued)

Longevity at 65:

	At 30 June 2015	At 30 June 2014
- Active – Males	N/A	N/A
- Active – Females	N/A	N/A
- Deferred – Males	86.3	86.3
- Deferred – Females	88.5	88.5
- Pensioners – Males	84.3	84.3
- Pensioners – Females	86.6	86.6

The fair value of the scheme assets, the present value of the scheme liabilities and net pension liability relating to the Scheme can be analysed as follows:

	2015 £'000	2014 £'000
Equities	19,410	14,574
Fixed interest bonds	57,305	44,641
Other	847	99
Total market value of assets	77,562	59,314
Present value of funded liabilities	(73,270)	(54,287)
Surplus in scheme	4,292	5,027
FRS 17 (paragraph 41) restriction	(4,292)	(5,027)
Surplus recognised	-	-

None of the surplus is deemed to be recoverable. The recoverable surplus is based on the present value of the FRS17 service cost over the future working lifetime of active members. Given that the Scheme is closed to future accrual, the service cost would be zero.

The irrecoverable surplus also has an impact on the FRS 17 pension cost for the year and the Statement of recognised gains and losses:

- The Statement of recognised gains and losses has been adjusted by £1,951,000 (2014: minus £1,607,000) for the change in irrecoverable surplus since the beginning of the year.
- The expected return on assets in the FRS 17 pension cost for this year and the coming year will be restricted to the extent required to keep the expense recognised in the profit and loss account subject to a minimum of zero. During 2015, the expected return on assets was restricted by £1,216,000 (2014: £1,100,000).

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Notes to the financial statements

for the year ended 30 June 2015 (continued)

18 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 surplus relating to the Kennametal Defined Benefit Pension Scheme can be analysed as follows:

	Value at 30 June 2015 £'000	Expected rate of return %	Value at 30 June 2014 £'000	Expected rate of return %
Equities	19,410		14,574	
Fixed interest bonds	57,305		44,641	
Other	847		99	
Total market value of assets	77,562	5.50	59,314	6.00
Present value of funded scheme liabilities	(73,270)		(54,287)	
Surplus in scheme	4,292		5,027	
Restriction in surplus	(4,292)		(5,027)	
Net deficit recognised	-		-	

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

	2015 £'000	2014 £'000
Expected return on pension scheme assets	(3,499)	(3,366)
Interest on pension scheme liabilities	2,283	2,266
Restriction in surplus	1,216	1,100
Total	-	-

Actual return on scheme assets is as follows:

	2015 £'000	2014 £'000
Actual return on scheme assets	4,916	4,034

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Notes to the financial statements for the year ended 30 June 2015 (continued)

18. Pension arrangements (continued)

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

	2015 £'000	2014 £'000
Opening present value of scheme liabilities	54,287	51,383
Interest cost	2,283	2,266
Actuarial losses	4,439	2,675
Transfer in	14,430	-
Benefits paid	(2,169)	(2,037)
	73,270	54,287

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

	2015 £'000	2014 £'000
Opening fair value of scheme assets	59,314	56,917
Expected return (Before impact of FRS 17 (Paragraph 41))	3,499	3,366
Actuarial gains	1,417	668
Contributions by employer	409	400
Transfer in	15,092	-
Benefits paid	(2,169)	(2,037)
	77,562	59,314

During the year, the company made contributions to the scheme of £409,000 (2014: £400,000) and will continue to do so for the foreseeable future at the same rate adjusted only for inflation.

Kennametal UK Limited

Notes to the financial statements for the year ended 30 June 2015 (continued)

18. Pension arrangements (continued)

The amounts recognised in the statement of total recognised gains and losses ("STRGL") are as follows:

	2015 £'000	2014 £'000
Actuarial losses	(3,022)	(2,007)
Change in irrecoverable surplus required by FRS 17 (paragraph 41)	1,951	1,607
Total amount recognised in the STRGL in the year	(1,071)	(400)
	2015 £'000	2014 £'000
Opening cumulative actuarial losses recognised in the STRGL	(13,029)	(12,629)
Total amount recognised in the STRGL in the year	(1,071)	(400)
Net cumulative actuarial losses recognised in the STRGL	(14,100)	(13,029)

Historical pension scheme information

	Financial year ended				
	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Scheme asset	77,562	59,314	56,917	53,241	52,863
Defined benefit liability	(73,270)	(54,287)	(51,383)	(51,190)	(48,772)
Surplus before restriction	4,292	5,027	5,534	2,051	4,091
Experience gains and losses arising on the scheme assets	1,417	668	1,659	(1,281)	2,950
- as a percentage of scheme assets	2%	1%	3%	(2%)	6%
Experience gains and losses arising on the scheme liabilities	(4,439)	(2,675)	285	(1,986)	1,133
- as a percentage of the present value of scheme liabilities	(6%)	(5%)	1%	(4%)	2%
Total amount recognised in the statement of total recognised gains and losses:	(1,071)	(400)	(388)	(376)	497
- as a percentage of the present value of scheme liabilities	(1%)	(1%)	(1%)	(1%)	1%

Kennametal UK Limited

Notes to the financial statements for the year ended 30 June 2015 (continued)

19. Related party transactions

As a wholly owned subsidiary, 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 financial statements 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".

20. 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 group into which the results of the company are consolidated is that headed by Kennametal GmbH.

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