Registration number: 03425094

Kennametal UK Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2021

Contents

Company information

Directors	J Grainger T Atkinson
Company secretary	J Grainger
Registered office	PO BOX29 The Pensnett Trading Estate Kingswinford West Midlands DY6 7NP
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors East Midlands Donington Court Pegasus Business Park Castle Donington DE74 2UZ
Bankers	Bank of America 2 King Edward Street London EC1A 1HQ

Strategic Report
for the Year Ended 30 June 2021

The directors present their strategic report for the year ended 30 June 2021.

Principal activities

The principal activity of the company is selling and distributing of cutting tools to a wide range of customers and industries.

Fair review of the business

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 £21,178,000 (2020: £26,343,000), resulting in a profit for the financial year of £2,584,000 (2020: £2,044,000). The position of the company at 30 June 2021 is detailed on page 13.

The directors expect the turnover to increase in Fiscal Year 2022, as the economic environment seems to recover after the COVID-19 lockdowns and business restrictions. Also our indirect channels was effected by delays caused by Brexit, especially in Q1 of 2021. We expect a recovery of those orders as well. We continue to believe we have the capability to offer a complete competitive solution that will satisfy our customers, both current and potential.

Continuing to work under a limited risk distribution contract, the company will again be able to achieve a positive EBIT at the year end.

Key performance indicators (KPI's)

The primary KPI used by management is growth in turnover. During 2021, revenue decreased by 20% (2020: 23%) to £21,178,000 (2020: £26,343,000).

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.

Strategic Report
for the Year Ended 30 June 2021

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.

Due to the Limited Risk Distribution agreement with KMT Europe GmbH, the risk is low for the company and management regularly monitors the risks inherent in business, with input from Enterprise Risk Management process. In addition to real time monitoring, the company periodically conducts a formal enterprise-wide risk assessment to identify factors and circumstances that might present significant risk to the company.

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.

Approved by the Board on 23.03.22 and signed by

J Grainger
Director

Directors' Report
for the Year Ended 30 June 2021

The directors present their annual report and the audited financial statements for the year ended 30 June 2021.

Directors of the company

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

J Grainger

T Atkinson

Review of business and future developments

Review of 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 (2020: £nil).

Directors' liabilities

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 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.

Directors' Report
for the Year Ended 30 June 2021

Brexit risk

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

Events since the balance sheet date

There are no events to be reported since the balance sheet date.

COVID-19 and Kennametal Inc.

On March 11, 2020, the World Health Organization declared the Coronavirus Disease 2019 (COVID-19) a pandemic bringing significant uncertainty in Kennametals end markets and operations. Since then, national, regional and local governments have taken steps at various times since the pandemic began to limit the spread of the virus through stay-at-home, social distancing, and various other orders and guidelines. Although some jurisdictions have relaxed these measures, others have not or have reinstated them as COVID-19 cases surge and variants emerge. The imposition of these measures has created significant operating constraints on Kennametals business. Throughout the pandemic, based on the guidance provided by the U.S. Centers for Disease Control and other relevant authorities, the company has deployed safety protocols and processes to keep employees safe while continuing to serve customers. To date, we have not experienced a material disruption in our supply chain. The extent to which the COVID-19 pandemic may continue to affect our business, operating results or financial condition in the future will depend on future developments, including the duration of the outbreak, the emergence of more contagious or virulent strains of the virus, travel restrictions, business and workforce disruptions, the availability, update and efficacy of vaccines and the effectiveness of other actions taken to contain and treat the disease.
The Kennametal Inc. Group's and regional forecasts scenarios consider COVID-19 impacts and demonstrate that in worst case scenarios, that the UK entity will be able to operate for at least twelve months from the approval date of these Financial Statements. Kennametal has a strong liquidity position and sufficient funding available. Beside solid available own cash, Kennametal has a revolving credit facility agreement which allows up to $700M. EMEA can participate with up to $250M in this credit agreement, not considering additional available local credit lines.

Going concern

The company generates cash through third party customer contracts. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The over generated cash flows into the Cash Pooling arrangement with Kennametal Holding GmbH, at the end of 30 June 2021 showed a short term loan receivable of GBP 10,743k.

The KMT group has a solid liquidity position. However continues closely monitoring the still challenging business environment, especially COVID-19 exposure. The company has GBP 10,743k as at 30 June 2021 on deposit with the Cash pool Holder Kennametal Holding GmbH. The company received confirmation for the continuation of the contractual arrangements under the Limited Risk Distribution contract from Kennametal Europe GmbH for the foreseeable future, at least 12 months from the signing of the Financial Statements for 2021.

Directors' Report
for the Year Ended 30 June 2021

Going concern (continued)

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

The company has GBP 10.7 million as at 30 June 2021 on deposit with EMEA.

Further, the company has received confirmation of the continuation of the contractual arrangements under the Limited Risk Distribution contract with Kennametal Europe GmbH for the foreseeable future, at least 12 months from the signing of the Financial Statements for 2021. Therefore the company believes that it is appropriate for the company's financial statements to have been prepared on a going concern basis and that no further disclosures relating to the company's ability to continue as a going concern need to be made.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' Report
for the Year Ended 30 June 2021

Statement of directors' responsibilities in respect of the financial statements (continued)

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities..

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Reappointment of auditors

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

The financial statements on pages 11 to 34 were.approved by the Board of Directors on 23.03.22 and signed on its behalf by:

J Grainger
Director

Independent Auditors' Report to the Members of Kennametal UK Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 30 June 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 30 June 2021; Profit and Loss Account, the Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information.

Independent Auditors' Report to the Members of Kennametal UK Limited

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 30 June 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax and UK employment legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inappropriate use of journal entries or the use of inappropriate accounting estimates / judgements. Audit procedures performed by the engagement team included:

- enquiries of management regarding any known instances of fraud, non-compliance with laws and regulations or and suspected or known claims made against the company;
- reviewing board minutes and fees paid to professional advisors in order to ascertain any previously undisclosed matters noted above;

Independent Auditors' Report to the Members of Kennametal UK Limited

- performing a risk-based test on journal entries which included test to ensure completeness of the data being subject to our analysis and then testing of journals back to supporting data where these triggered the criteria for further analysis;
- evaluating the appropriateness of management's significant judgements and estimates, as disclosed in the notes to the financial statements. This included assessing the validity of any models or data utilised by management in their assessment and understanding management's track record for accuracy compared to the outcome of prior years judgements in the current financial year. Audit procedures were then performed on the current years estimates / judgements which included assessing if these met the requirements of FRS 102 and were materially accurate based upon transactions and events that occurred post year end;
- reviewing the Annual Report to ascertain if all required disclosures under FRS 102 and the Companies Act had been appropriately made; and
- performing unpredictable audit procedures which are changed year on year.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Andrew Dymond

Andrew Dymond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
23 March 2022

Profit and Loss Account
for the Year Ended 30 June 2021

	Note	*2021* *£'000*	*2020* *£'000*
Turnover	4	21,178	26,343
Cost of sales		(16,350)	(20,167)
Gross profit		4,828	6,176
Other operating income	5	66	-
Operating expenses		(3,781)	(4,389)
Operating profit	6	1,113	1,787
Interest receivable and similar income	7	4	42
Profit before taxation		1,117	1,829
Tax on profit	11	1,467	215
Profit for the financial year		2,584	2,044

The above results were derived from continuing operations.

The notes on pages 15 to 34 form an integral part of these financial statements.

Statement of Comprehensive Income

for the Year Ended 30 June 2021

	Note	2021 £'000	2020 £'000
Profit for the year		2,584	2,044
Actuarial loss net of change in irrecoverable surplus on pension scheme	18	(903)	(891)
Movement on deferred tax relating to pension scheme	11	172	203
Other comprehensive expense for the year, net of tax		(731)	(688)
Total comprehensive income for the year		1,853	1,356

The notes on pages 15 to 34 form an integral part of these financial statements.

Statement of Financial Position
as at 30 June 2021

Registration number: 03425094

	Note	2021 £'000	2020 £'000
Fixed assets			
Intangible assets	12	-	1
Tangible assets	13	211	143
Investments	14	329	329
		540	473
Current assets			
Stocks		-	3
Debtors: amounts falling due within one year	15	14,010	13,684
Debtors: amounts falling due after more than one year	15	7,167	5,528
		21,177	19,215
Creditors: Amounts falling due within one year	16	(896)	(720)
Net current assets		20,281	18,495
Total assets less current liabilities and net assets		20,821	18,968
Capital and reserves			
Called up share capital	19	19,661	19,661
Profit and loss account		1,160	(693)
Total equity		20,821	18,968

Approved and authorised by the Board on 23.03.22 and signed on its behalf by:

J Grainger
Director

The notes on pages 15 to 34 form an integral part of these financial statements.

Statement of Changes in Equity
for the Year Ended 30 June 2021

	Called up Share capital *£'000*	*Profit and loss account* *£'000*	*Total* *£'000*
At 1 July 2019	**19,661**	**(2,049)**	**17,612**
Profit for the financial year	-	2,044	2,044
Other comprehensive expense for the year	-	(688)	(688)
Total comprehensive income for the year	-	1,356	1,356
At 30 June 2020	**19,661**	**(693)**	**18,968**
At 1 July 2020	**19,661**	**(693)**	**18,968**
Profit for the financial year	-	2,584	2,584
Other comprehensive expense for the year	-	(731)	(731)
Total comprehensive income for the year	-	1,853	1,853
At 30 June 2021	**19,661**	**1,160**	**20,821**

The notes on pages 15 to 34 form an integral part of these financial statements.

Notes to the Financial Statements
for the Year Ended 30 June 2021

1 General Information

Kennametal UK Limited sells and distributes cutting tools and associated services to a wide range of customers and industries. The company is a private company limited by share capital, incorporated in England and domiciled in the UK.

The address of its registered office is:
PO BOX29
The Pensnett Trading Estate
Kingswinford
West Midlands
DY6 7NP

2 Accounting policies

Summary of significant accounting policies

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

Statement of compliance

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

Basis of preparation

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies where certain items are shown at fair value.

These financial statements are presented in £ (GBP).

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

Exemption for qualifying entitles under FRS102

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

Cash flow statement

The company is a wholly owned subsidiary company of a group headed by Kennametal Inc., and is included in the consolidated financial statements of that company, which are publicly available via the company's website www.kennametal.com or from Kennametal Inc., 525 William Penn Place Suite 3300 Pittsburgh, Pennsylvania, United States of America. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 102 paragraph 1.12 (b).

Notes to the Financial Statements
for the Year Ended 30 June 2021

2 Accounting policies (continued)

Related party transactions

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

Consolidation

The company has taken advantage of Section 401 of the Companies Act 2006 which exempts the company from preparing consolidated financial statements of the grounds that the consolidated financial statements are prepared by the ultimate parent company, Kennametal Inc., in a manner equivalent to the EC Seventh Directive, and are made available to the public.

Going concern

The company generates cash through third party customer contracts. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The over generated cash flows into the Cash Pooling arrangement with Kennametal Holding GmbH, at the end of 30 June 2021 showed a short term loan receivable of GBP 10,743k.

The KMT group has a solid liquidity position. However continues closely monitoring the still challenging business environment, especially COVID-19 exposure. The company has GBP 10,743k as at 30 June 2021 on deposit with the Cash pool Holder Kennametal Holding GmbH. The company received confirmation for the continuation of the contractual arrangements under the Limited Risk Distribution contract from Kennametal Europe GmbH for the foreseeable future, at least 12 months from the signing of the Financial Statements for 2021.

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

The company has GBP 10.7 million as at 30 June 2021 on deposit with EMEA.

Further, the company has received confirmation of the continuation of the contractual arrangements under the Limited Risk Distribution contract with Kennametal Europe GmbH for the foreseeable future, at least 12 months from the signing of the Financial Statements for 2021.

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

Notes to the Financial Statements
for the Year Ended 30 June 2021

2 Accounting policies (continued)

Revenue recognition

Turnover represents net amounts invoiced, excluding trade discounts, value added tax and expected returns. Turnover is recognised at the point that the risks and rewards of the inventories have passed to the customer, which depends on the specific terms and conditions of sales transactions. This is typically upon either dispatch or delivery.

Government grant

Government grants are credited to the profit and loss account, the company recognises grant revenue when it is received or receivable. The company has received amounts under the Coronavirus Job Retention Scheme provided by the government due to the Covid-19 pandemic.

Amounts recognised in the profit and loss are presented under the heading Other operating income.

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.

Tax

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

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

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

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

Tangible assets

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

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

2 Accounting policies (continued)

Depreciation

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:

Land and Building	- 50 years
Plant and Machinery	- 5 - 15 years
Leasehold improvements	- over period of the lease

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

Goodwill

Goodwill arising on acquisitions, representing any excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its useful economic life. Goodwill is amortised over 20 years being the estimated useful life of the customers relationships for acquisitions made before transitioning to FRS 102, but will be amortised over 10 years for future acquisitions.

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.

Investments

Shares held in subsidiary undertaking are stated at cost adjusted by any provisions for impairment in value. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If an asset is impaired, a provision is made to reduce the carrying amount to its estimated recoverable amount.

Financial instruments

The company has adopted sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

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

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

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment is recognised in profit or loss.

2 Accounting policies (continued)

Financial assets (continued)

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

Financial liabilities

Basic financial liabilities, including trade and other creditors and amounts owed to group undertakings are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at a present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the company has an obligation at the reporting date as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not discounted.

Leases

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

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

Share capital

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

Notes to the Financial Statements
for the Year Ended 30 June 2021

2 Accounting policies (continued)

Employee benefits

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

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

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

Pension costs

The company operates both defined benefit and defined contribution pension schemes.

Defined benefit scheme

The defined benefit scheme is administered by trustees and is independent of the company finances. For the defined benefit scheme the fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates.

The fair value of plan assets is measured in accordance with the FRS 102 paragraph 28. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan.

The company does not recognise a surplus on the scheme. The recoverability of the surplus is based on the present value of the FRS 102 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. In addition, the company does not have an unconditional right of refund from the plan. Therefore none of the surplus is deemed to be recoverable.

The irrecoverable surplus also has an impact on the FRS 102 pension cost for the year and other comprehensive income for the year:

- The other comprehensive income for the year is adjusted for the change in irrecoverable surplus since the beginning of the year.
- The defined benefit pension surplus interest income for the year is restricted to the extent required to keep the amount recognised in the profit and loss account to zero.

Notes to the Financial Statements
for the Year Ended 30 June 2021

2 Accounting policies (continued)

Defined benefit contribution scheme

Contributions to the company's defined contribution pension schemes are charged to the profit and loss account in the year in which they become payable. The assets of the defined contribution scheme are held separately from those of the company in a separately administered fund.

3 Critical accounting judgements and estimation uncertainty

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

Useful economic lives of tangible assets

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

Deferred tax asset recognition

Deferred tax asset in respect of accelerated capital allowances are only recognised when it is probable that they will be recovered against future taxable profits. There is a degree of estimation and judgement in assessing the level of future taxable profits. However, given the fact that the company operates under a limited risk arrangement with the Kennametal group, this provides less uncertainty over the future profitability, The net deferred tax asset has therefore been recognised due to the certainty of future taxable profits and the fact that the company has established a track record of taxable profits over prior years.

Defined benefit pension scheme

The company has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

4 Turnover

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

	2021 *£'000*	*2020* *£'000*
UK	18,415	20,895
Europe	613	1,083
Rest of world	2,150	4,365
	21,178	26,343

Notes to the Financial Statements
for the Year Ended 30 June 2021

4 Turnover (continued)

Analysis of turnover by category:

	2021 £'000	2020 £'000
Metal Cutting	18,342	22,487
Infrastructure	2,836	3,856
	21,178	26,343

Effective July 1, 2020, Kennametal combined its former Industrial and Widia business segments to form one Metal Cutting business segment. The Infrastructure segment remains unchanged.

5 Other operating income

	2021 £'000	2020 £'000
Grant income	66	-

6 Operating profit

Arrived at after charging/(crediting)

	2021 £'000	2020 £'000
Depreciation expense	79	69
Amortisation expense	1	2
Impairment reversal of trade debtors	(1)	(24)
Foreign exchange losses	115	8
Operating lease expenses	346	266
Profit on disposal of property, plant and equipment	(1)	-

7 Interest receivable and similar Income

	2021 £'000	2020 £'000
Interest from group undertakings	4	42

8 Staff costs

The aggregate payroll costs were as follows:

	2021 £'000	2020 £'000
Wages and salaries	1,964	2,362
Social security costs	243	293
Other pension costs, defined contribution scheme	215	240
	2,422	2,895

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

	2021 No.	2020 No.
Administration, sales and distribution	43	53

9 Directors' emoluments

The directors' remuneration for the year was as follows:

	2021 £'000	2020 £'000
Aggregate emoluments	109	116

Notes to the Financial Statements
for the Year Ended 30 June 2021

9 Directors' emoluments (continued)

Retirement benefits are accruing to one directors (2020: one director) under the defined benefit scheme. Payments of £9,863 (2020: £11,054) were made to the defined contribution pension scheme for this director.

10 Auditors' remuneration

	2021 *£'000*	*2020* *£'000*
Audit of the financial statements	69	44

11 Tax on profit

Tax in the Profit and Loss Account

	2021 *£'000*	*2020* *£'000*
Deferred taxation		
Origination and reversal of timing differences	226	352
Changes in tax rates	(1,693)	(567)
Tax in the Profit and Loss Account	(1,467)	(215)

The tax assessed for the year is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%).

The credit for the year can be reconciled to the profit per the Profit and Loss Account as follows:

	2021 *£'000*	*2020* *£'000*
Profit before taxation	1,117	1,829
Tax on profit at standard UK tax rate of 19% (2020: 19%)	212	347
Effect of expenses not deductible	1	5
Tax rate changes	(1,680)	(567)
Total tax credit	(1,467)	(215)

Notes to the Financial Statements
for the Year Ended 30 June 2021

11 Tax on profit (continued)

Deferred tax

Tax relating to items recognised in other comprehensive Income or equity

	2021 £'000	2020 £'000
Tax related to items recognised in other comprehensive income	(172)	(203)

Factors that may affect future tax charges

The standard rate of tax applied to reported profit on ordinary activities is 19% (2020: 19%). The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. In the Finance Bill 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021.

12 Intangible assets

	Goodwill £'000
Cost	
At 1 July 2020	23
At 30 June 2021	23
Accumulated Amortisation	
At 1 July 2020	22
Amortisation charge	1
At 30 June 2021	23
Carrying amount	
At 30 June 2021	-
At 30 June 2020	1

Notes to the Financial Statements
for the Year Ended 30 June 2021

13 Tangible assets

	Land and buildings £'000	*Plant and machinery £'000*	*Total £'000*
Cost			
At 1 July 2020	163	942	1,105
Additions	-	147	147
Disposals	-	(9)	(9)
At 30 June 2021	163	1,080	1,243
Accumulated depreciation			
At 1 July 2020	163	799	962
Charge for the year	-	79	79
Depreciation on disposal	-	(9)	(9)
At 30 June 2021	163	869	1,032
Carrying amount			
At 30 June 2021	-	211	211
At 30 June 2020	-	143	143

Notes to the Financial Statements
for the Year Ended 30 June 2021

14 Investments

Group investments

Name	*Registered office*	*Holding*	*2021*	*2020*
Kennametal Manufacturing UK Limited	PO BOX29 Building 14 The Pensnett Trading Estate Kingswinford West Midlands DY6 7NP	Ordinary shares	100%	100%
Kennametal Logistics UK Limited	PO BOX29 Building 14 The Pensnett Trading Estate Kingswinford West Midlands DY6 7NP	Ordinary shares	100%	100%

Investments In subsidiary undertakings	*£'000*
Cost or valuation	
At 1 July 2020	9,508
At 30 June 2021	9,508
Impairment	
At 1 July 2020	9,179
At 30 June 2021	9,179
Carrying amount	
At 30 June 2021	329
At 30 June 2020	329

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

Notes to the Financial Statements
for the Year Ended 30 June 2021

15 Debtors

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Trade debtors	3,904	3,920
Amounts owed by group undertakings	9,896	9,692
Prepayments and accrued income	210	72
	14,010	13,684

The amounts owed by group undertakings are unsecured and repayable on demand, with interest charged at 0.05% (2020: 0.68%).

Amounts falling due after more than one year	*Note*	2021 £'000	2020 £'000
Deferred tax	17	7,167	5,528

16 Creditors: Amounts falling due within one year

	2021 £'000	2020 £'000
Trade creditors	197	52
Amounts owed to group undertakings	42	27
Taxation and social security	348	249
Other creditors	309	392
	896	720

The amounts owed to group undertakings are unsecured and repayable on demand, with interest charged at 0.05% (2020: 0.68%).

Notes to the Financial Statements
for the Year Ended 30 June 2021

17 Deferred taxation (included within debtors)

The movement on the deferred tax asset is as follows:

	2021 *£'000*	*2020* *£'000*
At 1 July	5,528	5,110
Charged to profit and loss account	1,467	215
Recognised in other comprehensive income	172	203
At 30 June	7,167	5,528

The total deferred taxation asset assessed at 25% (2020: 19%) is as follows:

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.

	2021 *£'000*	*2020* *£'000*
Trading losses	6,728	5,101
Accelerated capital allowances	429	420
Short term timing differences - trading	10	7
	7,167	5,528

18 Pension arrangements

Defined benefit schemes

The company provides pension arrangements for the majority of full time employees through the Kennametal Defined Benefit Pension Scheme ('the Scheme'), which is a funded defined benefit scheme. 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. The Scheme is comprised of two sections, the Kennametal Section and the Stellite Section.

The Scheme is closed to new entrants and future accruals. The level of benefits provided by the Scheme depends on a member's length of service and their salary at their date of leaving.

The last funding valuation of the Scheme was carried out by a qualified actuary as at 30 June 2018. Results of the latest funding valuation have been adjusted to the balance sheet date, taking account of experience over the period since 30 June 2018, changes in market conditions and differences in the financial and demographic assumptions. The present value of the defined benefit obligations were measured using the Projected Unit Cost Method.

Notes to the Financial Statements

for the Year Ended 30 June 2021

18 Pension arrangements (continued)

The pension service cost charge in respect of the defined benefit schemes for the year was £nil (2020: £nil) as the Scheme is closed to future accrual. During the year, the company made contributions to the Scheme of £903,488 (2020: £891,000). Contributions of £929,688 (2020: £903,000) are expected to be paid by the company in the year ended 30 June 2022. The outstanding contributions payable to the schemes at the year-end were £nil (2020: £nil).

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

	2021 %	*2020* %
- Discount rate	1.89	1.66
- The inflation assumption (retail price index)	3.25	2.90
- The inflation assumption (consumer price index)	2.70	2.00
- Kennametal Section (post-April 1997, pre 2002 leavers)	3.15	2.85
- Kennametal Section (post-April 1997, post 2002 leavers)	2.65	2.05
- Stellite Section (pre-April 1997 in excess of GMP)	3.00	3.00
- Stellite Section (post April 1997)	3.65	3.55
- Stellite Section (post March 2002)	3.15	2.85

The post-retirement mortality assumptions have been set in line with the latest triennial actuarial valuation but with the future improvements updated to the latest CMI 2020 projections and a long-term rate of future improvements of 1.25% p.a.

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:

	2021 *£'000*	*2020* *£'000*
Equities	16,408	13,121
Bonds	72,311	72,727
Other	5,735	9,213
Present value of funded liabilities	(83,771)	(86,310)
	10,683	8,751
Restriction in surplus required by FRS 102 (paragraph 28.22)	(10,683)	(8,751)

Notes to the Financial Statements

for the Year Ended 30 June 2021

18 Pension arrangements (continued)

Surplus recognised

None of the surplus is deemed to be recoverable. The recoverable surplus is based on the present value of the FRS 102 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. In addition, the company does not have an unconditional right to a refund.

The irrecoverable surplus also has an impact on the FRS 102 pension cost for the year and the other comprehensive income for the year:

- Other comprehensive income for the year has been adjusted by £1,932,000 (2020: £1,460,000 credit) for the change in irrecoverable surplus since the beginning of the year.
- The interest on the defined benefit surplus was restricted by £153,000 (2020: £230,000) for the change in the irrecoverable surplus since the beginning of the year.

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

	2021 *£'000*	*2020* *£'000*
Loss/(gain) on plan introductions, changes, curtailments and settlements	150	-
Interest on net defined benefit (assets)	(153)	(230)
Pension expense recognised in profit & loss	(3)	(230)

The amounts recognised in the other comprehensive income are as follows:

	2021 *£'000*	*2020* *£'000*
Actuarial gain/(loss)	1,029	(2,351)
Change in irrecoverable surplus required by FRS 102 (paragraph 28.22)	(1,932)	1,460
Total amount recognised in other comprehensive income for the year	(903)	(891)

Notes to the Financial Statements
for the Year Ended 30 June 2021

18 Pension arrangements (continued)

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

	2021 *£'000*	*2020* *£'000*
Opening present value of scheme liabilities	86,310	80,649
Interest cost	1,402	1,743
Actuarial (gains)/losses	(280)	7,477
Benefits paid	(3,661)	(3,559)
	83,771	86,310

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

	2021 *£'000*	*2020* *£'000*
Opening fair value of scheme assets	95,061	90,630
Interest on scheme assets (Before impact of FRS 102 (paragraph 28.22))	1,555	1,973
Return on assets (excluding amount included in net interest expense)	596	5,126
Contributions by employer	903	891
Benefits paid	(3,661)	(3,559)
	94,454	95,061

Actual return on scheme assets is as follows:

	2021 *£'000*	*2020* *£'000*
Actual return on scheme assets	2,151	7,099

Defined contribution scheme

The company operates a self-administered defined contribution pension scheme. The pension charge for the year in respect of this scheme was £215,381 (2020: £240,061). The contributions outstanding at the year end were £nil (2020: £nil).

Notes to the Financial Statements
for the Year Ended 30 June 2021

19 Called up share capital

Authorised

	No.	2021 £'000	No.	2020 £'000
Authorised ordinary shares of £1 each	50,000,000	50,000	50,000,000	50,000

Allotted and fully paid

	No.	2021 £'000	No.	2020 £'000
Allotted and fully paid ordinary shares of £1 each	19,661,012	19,661	19,661,012	19,661

20 Operating lease commitments

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

Payments falling:	*2021 Land and buildings £'000*	*2021 Other £'000*	*2020 Land and buildings £'000*	*2020 Other £'000*
- within one year	116	126	153	49
- between two and five years	-	161	-	12
	116	287	153	61

21 Related party transactions

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

22 Financial commitments

The company has financial commitments relating to letters of credit amounting to £400,000 (2020: £400,000).

Notes to the Financial Statements
for the Year Ended 30 June 2021

23 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 (formerly Kennametal Hertel AG).

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. 525 William Penn Place Suite 3300 Pittsburgh, Pennsylvania, United States of America.

24 Events since the balance sheet date

There are no events to be reported since balance sheet date.