

Deloro Stellite Holdings 1 Limited

Annual report

For the year ended 31 December 2011

Registered no: 5643255



Deloro Stellite Holdings 1 Limited

Annual report for the year ended

31 December 2011

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Deloro Stellite Holdings 1 Limited

Directors and advisers

Directors

J N Fleming

F Mecacci (appointed 1st March 2012)

S Pratesi (appointed 1st March 2012)

Secretary and registered office

P C Tadman

Units 4 & 5

Bicester Business Park

Telford Road

Bicester

Oxfordshire OX26 4LD

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

31 Great George Street

Bristol

BS1 5QD

Solicitors

S J Berwin LLP

10 Queen Street Place

London

EC4R 1BE

Principal bankers

Royal Bank of Scotland

135 Bishopsgate

London

EC2M 3UR

Deloro Stellite Holdings 1 Limited

Report of the directors for the year ended 31 December 2011

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2011, which have been prepared under the historical cost convention and the accounting policies set out on pages 10 to 12

Company registration number

The company is registered in England and Wales under company number 5643255

Principal activities

The Group is a manufacturer of metal alloy wear resistant components and consumables with operations principally in the USA, Canada, Germany, Italy, China and the United Kingdom. The Group's products are composed primarily of cobalt and nickel based alloys with product lines comprised of custom shaped components, powder metallurgy parts, standard forms of fabrication, and protective alloy overlays available as rod, electrode, powder and wire.

Review of business and future developments

Deloro Stellite Holdings 1 Limited operates a Group of companies in seven countries who produce wear solutions for a variety of industries through the development of suitable alloys usually based on cobalt or nickel. The results for the Group show a pre-tax profit of €9,548,000 (2010 loss €9,157,000) and sales of €230,560,000 (2010 €214,132,000) during the year to December 31 2011.

On the 1st March 2012 the entire Group was sold to Kennametal Inc, a US listed global supplier of innovative custom and standard wear-resistant solutions. Further details of this transaction and other post balance sheet events can be found in note 32.

The markets that the Group serves grew strongly throughout 2011 and continued to do so this year. This is based on both the general economic climate and the particular sectors such as oil and gas and heavy duty diesel engines that have provided the growth seen in these accounts. Management have invested, where required, to meet this increase in demand and will continue to do so in the foreseeable future.

On the 30th November 2011 the Group sold its medical components businesses composing ATS Stellite SAS and ATS Sferic SAS to Marle International for a total consideration of €33.3m. This disposal represents the Group's complete exit from the medical components business as part of the Group's continued commitment to reinvest in its core product lines. Given that this sale represents the Group's complete exit from the medical component business it has been classified as discontinued operations in accordance with Financial Reporting Standard No. 3 (FRS 3). During the year the Group has also restructured its Italian operations and disposed of its business and assets located in Bologna, Italy for a net consideration of €2.2m. For the purposes of this report the results of this business are disclosed within the continuing operations of the Group because other similar operations remain in the Group. Further details of both disclosures can be found in note 3(b).

The management of the business and the execution of the company's strategy are subject to a number of risks. The key risks affecting the Group are considered to relate to the strength of the markets we serve and the continuing supply of raw materials. The group have sought to mitigate these key risks by the fact that they deliver to a number of geographical markets and have a number of suppliers of raw materials and hence are not are not overly reliant on any one market or supplier. Following the acquisition by Kennametal Inc the funding of the Group which was previously managed by a mixture of long-term and short-term debt finance has been replaced by various borrowings within the new Group.

Given the relatively straight forward nature of the business the Group's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the business.

Going concern

The financial statements have been prepared under the going concern basis on the grounds that the directors have received confirmation that the current ultimate parent company, Kennametal Inc, will continue to support the company for the foreseeable future.

Dividends and transfers to reserves

The directors do not recommend the payment of a dividend in respect of the year. The profit for the year of €3,265,000 (2010 loss €15,568,000) has been taken to reserves.

Deloro Stellite Holdings 1 Limited

Report of the directors for the year ended 31 December 2011

(continued)

Directors

The directors of the company during the year to 31 December 2011 and up to the date of this report are detailed below

J N Fleming

AD Caffyn (resigned 20 June 2012)

E Priestley (resigned 1 March 2012)

F Mecacci (appointed 1 March 2012)

J R Stephenson (resigned 1 March 2012)

A C W Troup (resigned 1 March 2012)

J Lawford (resigned 1 March 2012)

S Pratesi (appointed 1 March 2012)

Changes in fixed assets

The movements in fixed assets during the year are set out in notes 9 to 11 to the financial statements

Research and development costs

Research and development costs incurred by the Group consist of external research and engineering costs incurred to develop new products and improve existing manufacturing processes. All expenditure for research is charged to the profit and loss account as incurred. The costs incurred in the development of samples in respect of specific customer orders are capitalised as an intangible asset and amortised over the life of the sales contract. All other development costs are written off to the profit and loss account as incurred.

Employee involvement

During 2011, the Group continued the established pattern of communication and consultation with employees and their representatives. At appropriate times, the directors of the companies hold joint meetings with managers, supervisors, and staff to review the overall state of the business.

Disabled persons

It is the Group's policy that disabled persons (whether registered or not) shall be considered for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities.

Directors' responsibilities

The directors are responsible for preparing the Annual Report 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 Group and parent company 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 Group and the company and of the profit or loss of the Group for that year. 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, and
- 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial risk management

The Group faces several financial risks, principally movements in interest rates, fluctuations in currencies and a credit risk in its customers' ability to pay for the goods and services the Group has supplied them.

The main transactional currency exposure is in Canada where the majority of the costs incurred are denominated in Canadian dollars, whereas the sales are denominated in US dollars. In order to minimise the risk of unfavourable movements in the exchange rate, the Group has contracts which mitigate some of the movement in exchange rates.

Deloro Stellite Holdings 1 Limited

Report of the directors for the year ended 31 December 2011

(continued)

The majority of the Group's customers are either large global businesses or are long-time customers with whom the Group has a strong relationship. For sales to customers who are located in countries where the Group considers the risk to be material, then letters of credit drawn on a major financial institution are requested as part of the terms and conditions of sale.

Post balance sheet events

On the 1st March 2012 the entire Group was sold to Kennametal Inc, a US listed global supplier of innovative custom and standard wear-resistant solutions, for €277m. As a result of the transaction the senior and mezzanine loans, Duke Street Capital loans and revolving credit facilities previously owed by the Group have been settled and the Group are no longer bound by the covenants which were a condition of these debts. Kennametal is a leading provider of manufacturing products and services that touch nearly every manufacturing process. The acquisition of Deloro Stellite is in alignment with Kennametal's growth strategy and positions the Kennametal Group to further achieve geographic and end market growth.

The Deloro Stellite Group has been renamed Kennametal Stellite and will continue to trade from its existing locations across the world.

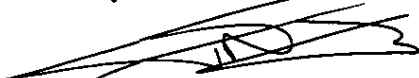
Statement of disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (that is, information needed by the company auditors in preparing their report) of which the company's auditors are unaware and the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the board.



J N Fleming

Director

Date 28 September 2012

Deloro Stellite Holdings 1 Limited

Independent auditors' report to the members of Deloro Stellite Holdings 1 Limited

We have audited the Group and parent company financial statements (the "financial statements") of Deloro Stellite Holdings 1 Limited for the year ended 31 December 2011 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3 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). 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and parent 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2011 and of the Group's profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



David Charles (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
Date 28 September 2012

Deloro Stellite Holdings 1 Limited

Consolidated profit and loss account for the year ended 31 December 2011

	Notes	2011 Euros 000	2010 Euros 000
Turnover			
Continuing operations		205,571	188,730
Discontinued operations		24,989	25,402
Group Turnover	2	230,560	214,132
Cost of sales	3(a)	(180,702)	(168,327)
Gross profit		49,858	45,805
Distribution costs	3(a)	(10,215)	(10,556)
Administrative expenses	3(a)	(24,244)	(26,007)
Exceptional administrative expenses	3	(2,598)	(599)
Total administrative expenses		(26,842)	(26,606)
Operating profit			
Continuing operations	3(a)	10,753	7,301
Discontinued operations	3(a)	2,048	1,342
Group operating profit	3	12,801	8,643
Profit on sale of subsidiaries			
Discontinued operations	3(b)	13,625	-
Continuing operations	3(b)	378	-
Interest payable and similar charges	6	(17,256)	(17,800)
Profit/(Loss) on ordinary activities before taxation		9,548	(9,157)
Tax on profit/(loss) on ordinary activities	7	(4,565)	(5,047)
Profit/(Loss) on ordinary activities after taxation		4,983	(14,204)
Equity minority interests	28	(1,718)	(1,364)
Profit/(Loss) for the financial year	20 & 27	3,265	(15,568)

Deloro Stellite Holdings 1 Limited **Group statement of total recognised gains and losses for the year ended 31 December 2011**

	Notes	2011 Euros 000	2010 Euros 000
Profit/(Loss) for the financial year		3,265	(15,568)
Actuarial loss recognised in the pension scheme	18	(666)	(233)
Currency translation differences on foreign currency net investments	20	(349)	(367)
Total recognised gains/(losses) for the year		2,250	(16,168)

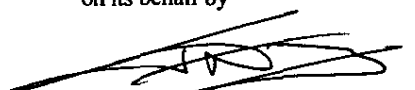
There is no material difference between the profit on ordinary activities before taxation (2010 loss) and the profit (2010 loss) for the financial year stated above and their historical cost equivalents

Deloro Stellite Holdings 1 Limited

Balance Sheets at 31 December 2011

	Notes	Group 2011 Euros 000	Company 2011 Euros 000	Group 2010 Euros 000	Company 2010 Euros 000
Fixed assets					
Intangible assets	9	82,659	-	98,971	-
Tangible assets	10	35,562	-	40,891	-
Investments	11	-	71,342	-	70,676
		118,221	71,342	139,862	70,676
Current assets					
Stocks	12	30,199	-	39,201	-
Debtors	13	43,520	101	42,762	-
Cash at bank and in hand		4,881	-	4,818	-
		78,600	101	86,781	-
Creditors: amounts falling due within one year	14	(67,985)	-	(82,514)	-
Net current assets		10,615	101	4,267	-
Total assets less current liabilities		128,836	71,443	144,129	70,676
Creditors: amounts falling due after more than one year	17	(191,123)	(105,429)	(207,259)	(100,574)
Provisions for liabilities	15	(2,511)	-	(3,722)	-
Net liabilities excluding pension liability		(64,798)	(33,986)	(66,852)	(29,898)
Pension liability	18	(3,297)	-	(4,402)	-
Net liabilities including pension liability		(68,095)	(33,986)	(71,254)	(29,898)
Capital and reserves					
Called up share capital	19	154	154	42	42
Share premium account	21	4,079	4,079	4,140	4,140
Profit and loss account	20	(77,411)	(38,219)	(79,661)	(34,080)
Total shareholders' deficit	27	(73,178)	(33,986)	(75,479)	(29,898)
Minority interests	28	5,083	-	4,225	-
Capital employed		(68,095)	(33,986)	(71,254)	(29,898)

The financial statements on pages 6 to 31 were approved by the board of directors on 28 September 2012 and signed on its behalf by



J N Fleming
Director
Deloro Stellite Holdings 1 Limited

Registered number 5643255

Deloro Stellite Holdings 1 Limited

Consolidated Cash Flow Statement for the year ended 31 December 2011

	Notes	2011 Euros 000	2010 Euros 000
Net cash inflow from operating activities	24	16,397	24,480
Returns on investments and servicing of finance			
Interest paid		(5,397)	(6,453)
Dividends paid to minority interest		(1,288)	(982)
Interest element of finance lease payments		(153)	(197)
Net cash (outflow) from returns on investments and servicing of finance		(6,838)	(7,632)
Taxation			
Overseas tax paid		(721)	(1,875)
Net cash (outflow) from taxation		(721)	(1,875)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(7,060)	(4,777)
Capitalisation of development costs		(926)	(1,481)
Disposal of tangible fixed assets		373	115
Net cash (outflow) from capital expenditure and financial investments		(7,613)	(6,143)
Acquisitions & disposals			
Disposal of subsidiary undertakings		33,269	-
Disposal of business		2,183	-
Investment by minority interest	28	116	-
Net cash inflow from acquisitions & disposals		35,568	-
Net cash inflow before management of liquid resources and financing		36,793	8,830
Financing			
Movements in borrowings	26	(32,381)	(11,699)
Issue of ordinary share capital		112	-
Share issue costs		(61)	-
Capital element of finance lease repayments	26	(248)	(314)
Net cash (outflow) from financing		(32,578)	(12,013)
Increase/(Decrease) in cash in the year	25	4,215	(3,183)

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year ended 31 December 2011

1 Principal accounting policies

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Going Concern

In adopting the going concern basis for preparing the financial statements the Directors have considered the economic conditions which impacted the Group, the demand for certain of the Group's products experienced in the current financial year and the impact of the ongoing global recessionary environment.

On the 1st March 2012 the Group was acquired by Kennametal Inc, a US listed global supplier of innovative custom and standard wear-resistant solutions. As a result of this transaction both the senior and mezzanine loans previously owed by the Group have been settled and the Group are no longer bound by the covenants which were a condition of these debts. As part of the Kennametal Group, the Deloro Stellite Group now has access to bank facilities sufficient to meet its obligations as they become due.

Accordingly, the Directors have formed a judgement at the time of approving the financial statements that given the improved financial position of the Group together with receipt of confirmation of the ongoing support from Kennametal Inc, that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2011 all of which have uniform accounting policies. Intra-Group sales, profits and balances are eliminated fully on consolidation. The results of subsidiaries are included or excluded in the consolidated profit and loss account from the date control passes either to or from the Group.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses that arise after the Group has gained control of the subsidiary are charged to the Group profit and loss account.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the purchase consideration, including incidental costs of acquisition, over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiaries is capitalised and written off over its estimated useful life of up to 20 years.

Foreign currencies

Assets and liabilities of subsidiaries in foreign currencies are translated into Euros at rates of exchange ruling at the end of the financial year. Results of subsidiaries in foreign currencies are translated into Euros at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies and from the translation of the results of those companies at the average rate are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Turnover

Turnover, which excludes Value Added Tax and sales taxes, represents the invoiced value of goods and services supplied to customers during the year, less returns. Turnover is recognised when the risks and rewards are passed to the customer based on the INCO terms of trade.

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

1 Principal accounting policies (continued)

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are

Machinery and equipment	2 - 10 years
Freehold land and buildings	25 years
Leasehold land and buildings	period of the lease

Freehold land is not depreciated. Assets constructed by the Group start to be depreciated when commissioned.

Investments

Investments held as fixed assets are stated at cost less provision for impairment, where required (see below)

Impairment of fixed assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and the value in use. Value in use is based on the present value of the future cash flows relating to the assets.

Finance and operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting year. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes material, direct labour and all overheads appropriate to the relevant stage of production. Net realisable value represents the estimated amount at which stocks and work in progress will be realised after taking into account all relevant marketing, selling and distribution costs.

Deferred taxation

Provision is made for deferred tax on all material timing differences using the incremental liability approach. Deferred tax assets are recognised where their recovery is considered more likely than not. The company has chosen not to adopt a policy of discounting the deferred tax provision.

Research and development

All expenditure for research is charged to the profit and loss account as incurred. The costs incurred in the design, construction and testing of pre-production prototypes in respect of specific customer orders are capitalised as an intangible asset and amortised over the life of the sales contract. All other development costs are written off to the profit and loss account as incurred.

Pension contributions

The Group operates several defined benefit and defined contribution pension schemes in its various countries of operation. Pension costs in respect of defined benefit schemes are charged to operating expenses and other finance expense in accordance with FRS 17 – Retirement Benefits, with actuarial gains and losses being recognised in the Group statement of total recognised gains and losses. Costs in respect of defined contribution schemes are charged to the profit and loss account as incurred.

Deferred financing fees

Costs of issuing debt are accounted for as a deduction from the proceeds received on issue and are written off over the life of the debt.

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

1 Principal accounting policies (continued)

Share based payments

In 2006 and 2010 certain employees of the Group acquired equity instruments which are subject to service-based vesting conditions. At 31 December 2011, 138,018 A Ordinary shares (2010: 271,854) were subject to vesting conditions over a remaining period of 3 years. The shares were acquired at fair value and are equity settled.

Equity settled share based payments are measured at fair value and charged to the profit and loss account in line with the vesting conditions in accordance with FRS 20. The amount of share based payment expense is not material to the financial statements.

Restructuring provisions

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan and the restructuring has either commenced or has been publicly announced and it is more likely than not that the plan will be implemented. Future operating losses are not provided.

2 Turnover

The geographical analysis of turnover, by destination is as follows

	2011 Euros 000	2010 Euros 000
United Kingdom	12,821	13,966
Rest of Europe	95,863	91,464
USA	44,965	41,460
Rest of the world	76,911	67,242
	230,560	214,132

3 Operating Profit

Operating profit for the year is stated after charging/(crediting) the following

	2011 Euros 000	2010 Euros 000
Goodwill amortisation	6,292	6,357
Development cost amortisation	1,027	1,369
Patent and trademarks amortisation	36	109
Depreciation charge for the year		
- owned assets	7,462	8,172
- assets held under hire purchase or finance lease agreements	225	556
Exceptional administration expense		
- restructuring costs	2,598	599
Services provided by the company's auditors and its associates		
- fees payable for the audit of the parent company and the consolidated financial statements	89	99
- fees payable for the audit of the company's subsidiaries pursuant to legislation	207	222
- other services relating to taxation and financial advice	125	153
Operating lease rental – plant and machinery	207	243
– other	404	537
Research and development costs	1,541	1,154
Foreign exchange (gain)/loss	(130)	213

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31

December 2011 (continued)

3(a) Turnover, cost of sales, gross profit, distribution and selling costs, exceptional and administrative expenses

	2011			2010		
	Continuing Euros 000	Discontinued Euros 000	Total Euros 000	Continuing Euros 000	Discontinued Euros 000	Total Euros 000
Group Turnover	205,571	24,989	230,560	188,730	25,402	214,132
Cost of sales	(162,207)	(18,495)	(180,702)	(148,972)	(19,355)	(168,327)
Gross Profit	43,364	6,494	49,858	39,758	6,047	45,805
Distribution costs	(9,245)	(970)	(10,215)	(9,450)	(1,106)	(10,556)
Administrative expenses	(20,768)	(3,476)	(24,244)	(22,408)	(3,599)	(26,007)
Exceptional administrative expenses	(2,598)	-	(2,598)	(599)	-	(599)
Total administrative expenses	(23,366)	(3,476)	(26,842)	(23,007)	(3,599)	(26,606)
Group operating profit	10,753	2,048	12,801	7,301	1,342	8,643

3(b) Profit on the sale of subsidiaries

On the 30 November 2011, the Group sold the medical components business composing of ATS Stellite SAS and ATS Sferic SAS (known for the purposes of this report as the "division") to Marle International for a total consideration after transaction costs of €33m. The sale transaction is summarised below

	Euros 000
Tangible fixed assets	3,816
Stocks	3,957
Debtors	7,387
Creditors	(5,237)
Finance leases	(714)
Bank debt	(41)
Goodwill	10,476
	<u>19,644</u>
Profit on disposal	13,625
Cash consideration, net of costs	33,269
Tax	970

During the year the division contributed €3,111,000 to the net operating cash flows and paid €62,000 in respect of net returns on investment and servicing of finance and €382,000 in respect of taxation. The profit on disposal is net of €970,000 of tax payable in France. As the division composed the Groups' only medical component companies their disposal represents the complete exit from these activities and this represents a material change in the nature and focus of the Group's operations. As a result the sale is treated as a discontinued operation in the profit and loss account.

In March 2011 the Group disposed of its operations in Bologna, Italy as part of the restructuring of its Italian business for €2.2m. The sales transaction is summarised below

	Euros 000
Tangible fixed assets	1,764
Stocks	955
Creditors	(914)
	<u>1,805</u>
Profit on disposal	378
Cash consideration, net of costs	<u>2,183</u>

There was no tax payable on the result of the disposal of the Bologna operations. For the purposes of this report the results of this business are disclosed within the continuing operations of the Group because other similar operations remain in the Group.

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

4 Directors' emoluments

The remuneration paid to the directors of Deloro Stellite Holdings 1 Limited was as follows

	2011 Euros 000	2010 Euros 000
Emoluments	932	902
Contributions paid to money purchase pension schemes	98	86
	1,030	988

	2011 Number	2010 Number
Members of money purchase pension schemes	2	2
Members of defined benefit pension schemes	-	-

The amounts in respect of the highest paid director are as follows

	2011 Euros 000	2010 Euros 000
Emoluments	481	400
Contributions paid to money purchase pension schemes	48	36
	529	436

5 Employee information

The average number of persons (including executive directors) employed during the year was

	2011 Number	2010 Number
Production	1,248	1,221
Distribution and selling	180	199
Administration	160	149
	1,588	1,569

	2011 Euros 000	2010 Euros 000
Staff costs		
Wages and salaries	53,411	51,160
Social security costs	10,669	10,609
Other pension costs	3,311	2,523
	67,391	64,292

The company does not have any employees (2010 no employees)

6 Interest payable and similar charges

	2011 Euros 000	2010 Euros 000
Interest payable on subordinated debt	6,455	5,625
Interest payable on bank loans and overdrafts	5,121	6,298
Interest payable on finance leases	153	197
Amortisation of deferred financing fees	573	619
Other finance expense (note 18)	98	206
Interest payable on non-bank loans	4,856	4,855
Total interest payable and similar charges	17,256	17,800

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

7 Tax on profit/(loss) on ordinary activities

	2011 Euros 000	2010 Euros 000
Current tax		
UK Corporation tax at 26.5% (2010 28%)	-	-
Overseas tax	3,702	3,832
Adjustments in respect of prior years overseas tax	2,780	895
	6,482	4,727
Deferred tax		
Origination and reversal of timing differences	(1,915)	320
Decrease in tax rate	(2)	-
	(1,917)	320
Total tax charge	4,565	5,047

The tax for the period is higher (2010 higher) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2011 of 26.5% (2010 28.0%). The differences are explained below

Factors affecting the current tax charge for the year

Profit/(Loss) on ordinary activities at UK rate 26.5% (2010 28.0%)	2,530	(2,564)
Effects of		
Expenses not deductible for tax purposes	2,911	3,310
Non-taxable profit on the disposal of France	(3,146)	-
Accelerated capital allowances/other timing differences	(344)	589
Adjustment in respect of foreign taxes	647	(15)
Overseas tax recovery	(1,542)	-
Losses not recognised	2,646	2,512
Adjustments in respect of prior years overseas tax	2,780	895
	6,482	4,727

Factors that may affect future tax charges

Deferred tax assets not provided amount to €19,412,000 (2010 €19,537,000) and includes surplus tax losses €17,381,000 (2010 €17,284,000) and pension deficits €1,093,000 (2010 €1,334,000). Subject to agreement with the local tax authorities these assets may be available for offset against trading profits of future periods in the tax jurisdictions in which they arose.

8 Company loss for the financial year

	2011 Euros 000	2010 Euros 000
Loss for the financial year	4,139	4,234

As permitted by section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements.

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

9 Intangible fixed assets

Group	Goodwill Euros 000	Development costs Euros 000	Patent and trademarks Euros 000	Total Euros 000
Cost				
At 1 January 2011	127,438	4,786	549	132,773
Additions	-	850	76	926
Disposals	(14,836)	-	-	(14,836)
Exchange adjustments	1,001	(29)	25	997
At 31 December 2011	113,603	5,607	650	119,860
Amortisation				
At 1 January 2011	(30,030)	(3,649)	(123)	(33,802)
Charge for the year	(6,292)	(1,027)	(36)	(7,355)
Disposals	4,360	-	-	4,360
Exchange adjustments	(408)	11	(7)	(404)
At 31 December 2011	(32,370)	(4,665)	(166)	(37,201)
Net book value				
At 31 December 2011	81,233	942	484	82,659
At 31 December 2010	97,408	1,137	426	98,971

The company had no intangible fixed assets during the year

10 Tangible fixed assets

Group	Freehold Land and buildings Euros 000	Leasehold Land and buildings Euros 000	Machinery and equipment Euros 000	Assets in course of construction Euros 000	Total Euros 000
Cost					
At 1 January 2011	15,243	3,450	50,737	487	69,917
Additions	85	525	6,705	120	7,435
Disposals	(3,990)	(1,261)	(26,506)	(362)	(32,119)
Exchange adjustments	286	87	359	1	733
At 31 December 2011	11,624	2,801	31,295	246	45,966
Accumulated Depreciation					
At 1 January 2011	(2,945)	(1,379)	(24,702)	-	(29,026)
Charge for the year	(743)	(231)	(6,713)	-	(7,687)
Disposals	2,821	688	23,002	-	26,511
Exchange adjustments	(147)	(35)	(20)	-	(202)
At 31 December 2011	(1,014)	(957)	(8,433)	-	(10,404)
Net book value					
At 31 December 2011	10,610	1,844	22,862	246	35,562
At 31 December 2010	12,298	2,071	26,035	487	40,891

Included within disposals are assets sold as part of the sales of the medical components business and the Group's operations in Bologna. The net book value of these assets totalled €5,580,000.

The net book value of tangible fixed assets includes an amount of €4,175,000 (2010: €2,337,000) in respect of assets held under finance leases. The depreciation charge on assets held under finance leases for the year was €225,000 (2010: €556,000).

The company had no tangible fixed assets during the year.

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

11 Investments

Company	Shares in Group undertakings Euros 000	Loans to Group undertakings Euros 000	Total Euros 000
At 1 January 2011	50,908	19,768	70,676
Additions	-	666	666
At 31 December 2011	50,908	20,434	71,342

Interests in Group undertakings

Company	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held	
			Group	Company
Deloro Stellite Holdings 2 Limited	Great Britain	Ordinary shares and Preference shares		100%
Deloro Stellite Holdings 3 Limited	Great Britain	Ordinary shares and Preference shares	100%	
Deloro Stellite Group Limited	Great Britain	Ordinary shares and Preference shares	100%	
DS Holdings (USA), Inc	USA	Ordinary shares	100%	
DS UK Limited	Great Britain	Preference shares	100%	
Deloro Stellite Holdings Corporation	USA	Ordinary shares	100%	
Deloro Stellite LP	USA	Partnership Interest	100%	
Deloro Holdings, Inc	USA	Ordinary Shares	100%	
Deloro Stellite	Great Britain	Ordinary shares	100%	
Deloro Stellite Holding GmbH & Co KG	Germany	Partnership Interest	100%	
DS Verwaltungsgesellschaft mbH	Germany	Ordinary shares	100%	
Deloro Stellite GmbH	Germany	Ordinary shares	100%	
Deloro Stellite Inc	Canada	Ordinary shares	100%	
Microfusione Stellite S p A	Italy	Ordinary shares	100%	
Hettiger Stellite GmbH	Germany	Ordinary shares	100%	
DS Srl	Italy	Ordinary shares	100%	
Deloro Stellite India Private Ltd	India	Ordinary shares	80 0%	
Shanghai Stellite Co Limited	China	Ordinary shares	58 7%	

The main trading companies of the Group are Deloro Stellite LP, Deloro Stellite, Deloro Stellite Holding GmbH & Co KG, Deloro Stellite GmbH, Deloro Stellite Inc (Canada), Microfusione Stellite S p.A and Shanghai Stellite Co Limited. The remaining companies are non-trading holding and intermediate holding companies or small trading companies which are not material to the Group. Interests in Group undertakings are stated at historic cost to the company with no amounts written off.

The proportion of ordinary shares held in Deloro Stellite India Private Ltd was 80 0% and Shanghai Stellite was 58 7%. See note 28 for further details.

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

Deloro Stellite Holdings 1 Limited
Notes to the financial statements for the year end 31
December 2011 (continued)

12 Stocks

	Group 2011 Euros 000	Company 2011 Euros 000	Group 2010 Euros 000	Company 2010 Euros 000
Raw materials and consumables	8,556	-	11,592	-
Work in progress	14,246	-	17,554	-
Finished goods and goods for resale	7,397	-	10,055	-
	30,199	-	39,201	-

13 Debtors

	Group 2011 Euros 000	Company 2011 Euros 000	Group 2010 Euros 000	Company 2010 Euros 000
Amounts falling due within one year				
Trade debtors	37,482	-	38,191	-
Prepayments and accrued income	2,880	-	3,194	-
	40,362	-	41,385	-
Amounts falling due after more than one year				
Deferred tax	2,978	-	1,143	-
Other debtors	180	101	234	-
	43,520	101	42,762	-

14 Creditors: amounts falling due within one year

	Group 2011 Euros 000	Company 2011 Euros 000	Group 2010 Euros 000	Company 2010 Euros 000
Bank loans and overdrafts	15,038	-	23,619	-
Obligations under finance leases	198	-	371	-
Trade creditors	34,147	-	39,366	-
Other taxation and social security	7,841	-	2,399	-
Accruals and deferred income	9,891	-	15,805	-
Accrued interest	870	-	954	-
	67,985	-	82,514	-

The bank loans and overdrafts are secured over certain of the assets of the Company and its subsidiaries

15 Provisions for liabilities

	Group 2011 Euros 000	Company 2011 Euros 000	Group 2010 Euros 000	Company 2010 Euros 000
Other retirement benefits	447	-	1,426	-
Deferred tax	2,064	-	2,296	-
	2,511	-	3,722	-

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

15 Provisions for liabilities (continued)

Group	Other retirement benefits Euros 000	Deferred tax Euros 000	Total Euros 000
At 1 January 2011			
Provisions for liabilities	1,426	2,296	3,722
Deferred tax asset (see note 13)	-	(1,143)	(1,143)
	1,426	1,153	2,579
Credited to the profit and loss account	(955)	(1,917)	(2,872)
Foreign exchange	(24)	(150)	(174)
At 31 December 2011			
Provisions for liabilities	447	2,064	2,511
Deferred tax asset (see note 13)	-	(2,978)	(2,978)
	447	(914)	(467)

Other retirement benefits include various amounts payable upon the retirement of staff

16 Deferred taxation

Deferred tax, provided in the Group financial statements is as follows

	Group 2011 Euros 000	Group 2010 Euros 000
Tax effect of timing differences because of		
Excess of capital allowances over depreciation	709	1,861
Short term timing differences	1,355	(262)
Foreign tax credits	(2,634)	-
Other	(344)	(446)
Deferred tax (asset)/liability	(914)	1,153

The company had no deferred taxation liability

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

17 Creditors: amounts falling due after more than one year

	Group 2011 Euros 000	Company 2011 Euros 000	Group 2010 Euros 000	Company 2010 Euros 000
Bank and other loans	101,963	17,371	122,565	17,371
Obligations under finance leases	1,102	-	1,491	-
Cumulative preference shares	75,032	75,032	75,032	75,032
Accrued long term interest	13,026	13,026	8,171	8,171
	191,123	105,429	207,259	100,574

The bank loans are secured over certain of the assets of the Company and its subsidiaries

Maturity analysis of debt

	Group 2011 Euros 000	Company 2011 Euros 000	Group 2010 Euros 000	Company 2010 Euros 000
Repayable as follows				
In one year or less	15,236	-	23,990	-
Between one and two years	13,578	-	13,786	-
Between two and five years	43,160	15,397	54,416	-
Five years or more	136,337	90,032	141,527	100,574
	208,311	105,429	233,719	100,574
Deferred financing fees	(1,952)	-	(2,470)	-
	206,359	105,429	231,249	100,574

	Group 2011 Euros 000	Company 2011 Euros 000	Group 2010 Euros 000	Company 2010 Euros 000
Amounts repayable otherwise than by instalment after more than five years	92,403	92,403	90,032	90,032

Cumulative Preference Shares

	Group 2011 Euros	Company 2011 Euros	Group 2010 Euros	Company 2010 Euros
Authorised				
49,361,009 (2010 49,361,009)				
Cumulative preference shares of €0.01	493,610	493,610	493,610	493,610
Issued				
46,989,937 (2010 46,989,937)				
Cumulative preference shares of €0.01	469,899	469,899	469,899	469,899

Cumulative Preference Share premium, dividend and interest

	Par value Euros 000	Share premium Euros 000	Unpaid dividends and interest Euros 000	Total Euros 000
1 January 2011	470	46,520	28,042	75,032
Charged to the profit & loss account in the year	-	-	-	-
31 December 2011	470	46,520	28,042	75,032

The cumulative preference shares accrued a dividend at the rate of 15% pa on amount paid, rolled half yearly, any dividend unpaid accrues interest at the rate of 15% pa. This rate of interest was reduced to 0% as from June 2009. On 6th September 2010 new B Preference shares were created by converting 10,000 of the original preference shares. All preference shareholders opted to convert a part of their holding and these shares were distributed to the managers with DSC Capital V Limited, DSC Capital V GmbH & Co KG and DSC Beteiligungs GmbH collectively retaining 7,500 or 75% of the new class. There are no vesting conditions re these new B Preference shares.

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

17 Creditors: amounts falling due after more than one year (continued)

Bank loans, other loans and overdrafts

The bank loans, other loans and overdrafts as at 31 December 2011 and 2010 included in the above comprise the following

	Group 2011 Euros 000	Company 2011 Euros 000	Group 2010 Euros 000	Company 2010 Euros 000
Senior Debt Term A (\$8,308,611) USD LIBOR plus 3 50% due to 2013	2,400	-	6,201	-
Senior Debt Term A (€1,175,416) EUR LIBOR plus 3 50% due 2013	441	-	1,175	-
Senior Debt Term A (\$14,773,057) USD LIBOR plus 3 50% due 2013	4,268	-	11,024	-
Senior Debt Term Loan B (\$9,282,000) USD LIBOR plus 4 00% due 2014	5,031	-	6,927	-
Senior Debt Term Loan B (€11,535,269) EUR LIBOR plus 4 00% due 2014	8,128	-	11,535	-
Senior Debt Term Loan B (\$2,100,000) USD LIBOR plus 4 00% due 2014	1,138	-	1,567	-
Senior Debt Term Loan B (€3,915,353) EUR LIBOR plus 4 00% due 2014	2,759	-	3,915	-
Senior Debt Term Loan C (€24,896,266) EUR LIBOR plus 4 50% due 2015	17,541	-	24,896	-
Senior Debt Term Loan Capex (€14,030,383) EUR LIBOR plus 3 50% due 2013	5,421	-	14,030	-
Revolving Credit Facilities	5,996	-	10,441	-
Mezzanine Debt (\$19,345,502) USD 16 0% with capitalising interest due 2016	17,394	-	14,437	-
Mezzanine Debt (€23,834,903) EUR 16 0% with capitalising interest due 2016	27,859	-	23,835	-
Loan from Duke Street Capital (€2,371,073) 15% due 2017	2,371	2,371	2,371	2,371
Loan from Duke Street Capital (€15,000,000) 30% due 2017	15,000	15,000	15,000	15,000
Other Debt	3,206	-	1,300	-
	118,953	17,371	148,654	17,371
Less amounts due within one year	(15,038)	-	(23,619)	-
Less Deferred financing fees	(1,952)	-	(2,470)	-
Amounts due after one year	101,963	17,371	122,565	17,371

EUR LIBOR (3 month) was 1 29214% and 0 93875% at 31 December 2011 and 31 December 2010 respectively USD LIBOR (3 month) was 0 58100% and 0 30281% at 31 December 2011 and 31 December 2010 respectively

As a result of the purchase of the Group by Kennametal Inc on 1 March 2012 the senior and mezzanine loans, the loans from Duke Street Capital and the revolving credit facilities were settled. The financial covenants relating to the senior debt and revolving credit facility including gross debt to earnings ratio, earnings to debt costs ratios and cash flow coverage of debt service no longer apply

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

17 Creditors: amounts falling due after more than one year (continued)

Principal payments on debt

The schedule of principal payments on debt, excluding finance lease obligations, is as follows

	Group 2011 Euros 000	Company 2011 Euros 000	Group 2010 Euros 000	Company 2010 Euros 000
2011	14,931	-	23,619	-
2012	13,362	-	13,458	-
2013	17,917	-	18,825	-
2014	24,787	-	26,849	-
2015 onwards	134,062	105,429	149,106	100,574
	205,059	105,429	231,857	100,574

Finance leases obligations

The net finance lease obligations to which the Group is committed are

	Group 2011 Euros 000	Group 2010 Euros 000
Repayable as follows		
In one year or less	198	524
Between one and two years	215	452
Between two and five years	456	422
Five years or more	879	1,129
Less future interest payable	(448)	(665)
	1,300	1,862

The company had no finance lease obligations

18 Pensions

The Group operates a number of pension schemes in the United Kingdom and overseas. The total pension cost for the Group was €3,311,000 for the year ended 31 December 2011 (2010 €2,391,000). Details of the significant pension schemes are shown below.

Deloro Stellite

Deloro Stellite, a subsidiary located in the United Kingdom, maintains a defined benefit pension scheme which is contracted out of the state scheme to which eligible employees contribute, and whose assets are held in separate trustee administered funds. The contributions are determined by a professionally qualified independent actuary on the basis of triennial valuations using the projected unit method. The last actuarial assessment of the Scheme was on 1 April 2010. The results of the valuation have been updated to reflect current conditions at 31 December 2011.

Deloro Stellite's contributions to the plan for the year ended 31 December 2011 totalled €920,000 (2010 €936,000). During the year the Group were making contributions of £800,000 into the scheme however a new agreement has been reached limiting contributions in future years to £350,000. The Group has agreed to make contributions of £350,000 per annum. As the defined benefit portion of the plan is closed to new entrants, use of the projected unit method in the valuation will result in an increase in the current service cost charged to the profit and loss account as the members of the scheme approach retirement.

The company also operates a defined contribution scheme for eligible employees. Pension costs are charged to the profit and loss account in the period to which they relate. The charge in 2011 was €308,000 (2010 €613,000). The company's contribution to the defined contribution scheme is 5%. The company has no liability for the final value of individual member's funds.

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

18 Pensions (continued)

Deloro Stellite Inc

Deloro Stellite Inc, a subsidiary located in Canada, maintains a defined benefit pension scheme to which eligible employees contribute, and whose assets are held in separate trustee administered funds. The contributions are determined by a professionally qualified independent actuary on the basis of triennial valuations using the projected unit method. The last actuarial assessment of the Scheme was on 31 December 2010. The results of the valuations have been updated to reflect current conditions at 31 December 2011.

Deloro Stellite Inc's contributions to the plan for the year ended 31 December 2011 totalled €341,000 (2010 €213,000). In accordance with the agreed Schedule of Contributions, Deloro Stellite Inc is required to contribute to the Plan at the rate of 6% of pensionable salaries a year over the average remaining service life of the employees.

Deloro Stellite Inc employees made no contributions to the plan over the year. Employees are not required to contribute to the plan.

Microfusione Stellite S.p.A.

Microfusione Stellite S.p.A., a subsidiary located in Italy, has a government administered unfunded leaving indemnity scheme to which the company is required to contribute.

An actuarial valuation of the scheme was last performed at 31 December 2010 by a professionally qualified independent actuary using the projected unit method. The results of the valuations have been updated to reflect current conditions at 31 December 2011. Employees are not required to contribute to the plan. Payments of €672,000 (2010: €705,000) were made to employees during the year on leaving the company.

Deloro Stellite LP

Deloro Stellite LP, a subsidiary located in the United States, maintains a defined contribution pension scheme for all eligible employees in the United States. As of 1 October 1997, employees are eligible to participate in the plan from the first day of the month following the completion of the first month of service with the Company. Vesting begins after one year of service and participants become fully vested after four years. The employees may choose to contribute between 1% and 15%, with the Company matching 50% of the first 6%. The Company contributed €663,000 (2010: €373,000) for the year ended 31 December 2011.

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

18 Pensions (continued)

Defined Benefit Schemes

The major assumptions used by the actuaries were

Financial assumptions

	At 31 December 2011			At 31 December 2010		
	Italy	% pa UK	Canada	Italy	% pa UK	Canada
Inflation	2.0	3.0	3.0	2.0	3.4	3.0
Rate of increase in salaries	3.0	-	4.0	3.0	-	4.0
Rate of increase in pensions in payment						
Allowance for pension in payment increases of RPI or 5%p a if less	-	3.0	-	-	3.4	-
Allowance for pension in payment increases of RPI or 5%p a if less, with a minimum of 3%p a	-	3.4	-	-	3.8	-
Allowance for revaluation of deferred pensions of RPI or 5%p a if less	-	2.2	-	-	2.8	-
Discount rate	4.3	4.7	5.3	4.5	5.4	5.5

The mortality assumptions used were as follows

	At 31 December 2011			At 31 December 2010		
	Italy	UK	Canada	Italy	UK	Canada
Longevity at age 65 for current pensioners						
- Men	*	21.8	**	*	21.7	**
- Women	*	24.3	**	*	24.2	**
Longevity at age 65 for future pensioners						
- Men	*	23.7	**	*	23.6	**
- Women	*	26.1	**	*	26.0	**

* In Italy the RG48 mortality tables were used (2010 RG48)

** In Canada the mortality assumptions used in the calculation of the post-retirement liability were based on the current UP 94 table with projection of mortality improvement to 2020 (2010 was based on the current table UP 1994 with projection of mortality improvement from 1994 to 2015)

The assets in the scheme and the expected rates of return were

	Total	Italy		UK		Canada	
	Value at 31 December 2011 Euros 000	Value at 31 December 2011 Euros 000	Expected rate of return % pa	Value at 31 December 2011 Euros 000	Expected rate of return % pa	Value at 31 December 2011 Euros 000	Expected rate of return % pa
2011							
Equities	6,458	-	-	4,135	7.0	2,323	8.0
Bonds	3,734	-	-	3,734	5.4	-	-
Other	9,723	-	-	8,207	4.0	1,516	6.0
Total market value of assets	19,915	-	-	16,076	-	3,839	
Present value of liabilities	(23,212)	(1,667)	-	(16,903)	-	(4,642)	
Deficit in the scheme	(3,297)	(1,667)	-	(827)	-	(803)	

Deloro Stellite Holdings 1 Limited
Notes to the financial statements for the year end 31
December 2011 (continued)
18 Pensions (continued)

	Total Value at 31 December 2010 Euros 000	Italy Value at 31 December 2010 Euros 000	Expected rate of return % pa	UK Value at 31 December 2010 Euros 000	Expected rate of return % pa	Canada Value at 31 December 2010 Euros 000	Expected rate of return % pa
2010							
Equities	8,212	-	-	5,890	7.0	2,322	8.0
Bonds	2,812	-	-	2,812	5.7	-	-
Other	7,214	-	-	5,699	4.5	1,515	6.0
Total market value of assets	18,238	-	-	14,401	-	3,837	-
Present value of liabilities	(22,640)	(2,276)	-	(16,107)	-	(4,257)	-
Deficit in the scheme	(4,402)	(2,276)	-	(1,706)	-	(420)	-

Reconciliation of fair value of scheme assets

	Total Euros 000	Italy Euros 000	UK Euros 000	Canada Euros 000
2011				
1 st January	18,238	-	14,401	3,837
Expected return on scheme assets	1,070	-	802	268
Contributions by employer	1,410	-	1,053	357
Benefits paid, death in service insurance premiums and expenses	(1,878)	-	(1,693)	(185)
Actuarial gain/(loss)	578	-	1,016	(438)
Exchange gain	497	-	497	-
31 st December	19,915	-	16,076	3,839

	Total Euros 000	Italy Euros 000	UK Euros 000	Canada Euros 000
2010				
1 st January	15,563	-	12,386	3,177
Expected return on scheme assets	992	-	740	252
Contributions by employer	1,183	-	970	213
Benefits paid, death in service insurance premiums and expenses	(1,124)	-	(869)	(255)
Actuarial gain	738	-	732	6
Exchange gain	886	-	442	444
31 st December	18,238	-	14,401	3,837

The expected return on scheme assets is determined by considering the expected return available on assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of €1,579,000 (2010 gain €1,637,000)

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

18 Pensions (continued)

Reconciliation of present value of scheme liabilities

2011	Total Euros 000	Italy Euros 000	UK Euros 000	Canada Euros 000
1 st January	22,640	2,276	16,107	4,257
Current service costs	154	-	128	26
Interest cost	1,168	80	858	230
Benefits paid	(2,549)	(672)	(1,692)	(185)
Actuarial loss/(gain)	1,244	(17)	947	314
Exchange loss	555	-	555	-
31 st December	23,212	1,667	16,903	4,642

2010	Total Euros 000	Italy Euros 000	UK Euros 000	Canada Euros 000
1 st January	21,062	2,961	14,916	3,185
Current service costs	151	-	130	21
Interest cost	1,198	103	860	235
Benefits paid	(1,829)	(705)	(869)	(255)
Actuarial loss/(gain)	971	(83)	537	517
Exchange loss	1,087	-	533	554
31 st December	22,640	2,276	16,107	4,257

Analysis of the amount charged to profit and loss are as follows

2011	Total Euros 000	Italy Euros 000	UK Euros 000	Canada Euros 000
Current service costs	154	-	128	26
Expected return on pension scheme assets	(1,070)	-	(802)	(268)
Interest on pension scheme liabilities	1,168	80	858	230
	252	80	184	(12)

2010	Total Euros 000	Italy Euros 000	UK Euros 000	Canada Euros 000
Current service costs	151	-	130	21
Expected return on pension scheme assets	(992)	-	(740)	(252)
Interest on pension scheme liabilities	1,198	103	860	235
	357	103	250	4

Analysis of amount recognised in the statement of total recognised gains and losses

	2011 Euros 000	2010 Euros 000	2009 Euros 000	2008 Euros 000	2007 Euros 000
Defined benefit obligation	(23,212)	(22,640)	(21,062)	(17,586)	(24,946)
Plan assets	19,915	18,238	15,563	12,931	17,715
(Deficit)	(3,297)	(4,402)	(5,499)	(4,655)	(7,231)
Experience adjustments on plan assets	(578)	(738)	(390)	2,503	337
Experience adjustments on plan liabilities	9	(594)	63	(144)	26
Total amount recognised in the statement of total recognised gains and losses	(666)	(233)	(2,002)	985	(482)

The cumulative amount of actuarial loss recognised in the statement of recognised gains and losses is €2,003,000 (2010 loss €1,291,000)

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

19 Called-up share capital

	Group and Company 2011 Euros	Group and Company 2010 Euros
Allotted, called up and fully paid		
1,045,588 (2010 1,045,588) A Ordinary Shares of €0 01 each	10,456	10,456
3,136,764 (2010 3,136,764) B Ordinary Shares of €0 01 each	31,368	31,368
11,090 (2010 Nil) C Ordinary Shares of €10 00 each	110,900	-
104,834 (2010 Nil) D Ordinary Shares of €0 01 each	1,048	-
	153,772	41,824

The holders of the A Ordinary and B Ordinary shares have one vote per share and equal rights to dividends and the assets of the company on a winding up

Certain of the holders of the A Ordinary shares have vesting rights attached to those shares whereby they are required to remain as shareholders for periods up to five years from the date of the acquisition

The company issued two classes of Ordinary shares, C and D, in February 2011. There are no specific vesting conditions attached to the issuance of these shares whose rights to dividends and other distributions are ranked below that of the A and B Ordinary shares

20 Profit and loss account

	Group 2011 Euros 000	Company 2011 Euros 000
At 1 January 2011	(79,661)	(34,080)
Profit/(Loss) for the financial year	3,265	(4,139)
Actuarial loss	(666)	-
Exchange loss	(349)	-
At 31 December 2011	(77,411)	(38,219)

21 Share premium account

	Group and Company 2011 Euros 000	Group and Company 2010 Euros 000
Share premium account	4,079	4,140

The movement in the share premium account reflects the costs incurred issuing the C and D Ordinary shares during the year

22 Outstanding commitments for capital expenditure

The Group has capital expenditure contracted for but not yet incurred as follows

	2011 Euros 000	2010 Euros 000
Capital expenditure contracted for but not yet incurred	-	1,713

The company had no capital expenditure contracted for but not yet incurred

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

23 Financial commitments

The Group has annual commitments under non-cancellable operating leases as follows

	2011			2010		
	Land and Buildings Euros 000	Other Euros 000	Total Euros 000	Land and Buildings Euros 000	Other Euros 000	Total Euros 000
On leases -						
Expiring within one year	157	120	277	489	208	697
Expiring between two and five years inclusive	447	526	973	433	476	909
Expiring in over five years	369	8	377	87	89	176
	973	654	1,627	1,009	773	1,782

The Group has a guarantee with HM Customs & Excise for £10,000 (2010 £10,000) At 31 December 2011, the Group had other guarantees totalling €1,010,000 (2010 €1,010,000)

The Group has a foreign exchange contract selling US\$1,000,000 monthly and purchasing Canadian Dollars at a fixed rate in order to manage its requirements for Canadian Dollars The final settlement date on the contract is the 18th December 2012

At 31 December 2010 the Group had outstanding contracts for interest rate caps under which interest is fixed at 2.5% on \$17,231,834 and 2.5% on €27,776,344 These contracts expired on 29 December 2011

The company had no commitments under operating leases

24 Reconciliation of operating profit to net cash inflow from operating activities

	2011 Euros 000	2010 Euros 000
Operating profit	12,801	8,643
Depreciation of tangible fixed assets	7,687	8,728
Goodwill and development costs amortised	7,355	7,835
Decrease/(increase) in stocks	4,687	(6,086)
Increase in debtors	(3,148)	(1,667)
(Decrease)/increase in creditors	(9,796)	8,992
(Decrease) in provisions for liabilities	(423)	(477)
Difference in pension charge and cash consideration	(1,256)	(1,032)
(Loss)/Gain on disposal of fixed assets	(356)	26
Other non-cash changes	(1,154)	(482)
Net cash inflow from operating activities	16,397	24,480

25 Reconciliation of net cash flow to movement in net debt

	2011 Euros 000	2010 Euros 000
Increase/(decrease) in cash in the year	4,215	(3,183)
Cash inflow from financing	32,629	12,013
Change in net debt resulting from cash flows	36,844	8,830
Acquisitions and disposals	755	-
Other non-cash items	(7,320)	(8,080)
Translation difference	(472)	(2,989)
Movement in net debt in the year	29,807	(2,239)
Net debt at 1 January	(218,259)	(216,020)
Net debt at 31 December	(188,452)	(218,259)

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

26 Analysis of net debt

	At 1 January 2011 Euros 000	Acquisitions and disposals Euros 000	Cash flow Euros 000	Non-Cash changes Euros 000	Reclassi- fication Euros 000	Exchange Movements Euros 000	At 31 December 2011 Euros 000
Cash in hand, at bank	4,818	-	(165)	-	-	228	4,881
Overdrafts	(10,441)	-	4,380	-	-	63	(5,998)
	(5,623)	-	4,215	-	-	291	(1,117)
Debt due within 1 year	(13,178)	41	20,253	-	(16,772)	616	(9,040)
Debt due after 1 year	(125,034)	-	12,128	(6,372)	16,772	(1,409)	(103,915)
Finance leases	(1,862)	714	248	(375)	-	(25)	(1,300)
Preference shares	(75,032)	-	-	-	-	-	(75,032)
Deferred financing fees	2,470	-	-	(573)	-	55	1,952
	(212,636)	755	32,629	(7,320)	-	(763)	(187,335)
Total	(218,259)	755	36,844	(7,320)	-	(472)	(188,452)

Non cash changes comprise amortisation of issue costs relating to debt issues, the unpaid interest on the mezzanine loans and shareholders loans and new finance leases in the year

27 Reconciliation of movements in shareholders' deficit

	Group 2011 Euros 000	Company 2011 Euros 000	Group 2010 Euros 000	Company 2010 Euros 000
At 1 January	(75,479)	(29,898)	(59,311)	(25,664)
Profit/(Loss) for the year	3,265	(4,139)	(15,568)	(4,234)
New share capital subscribed	112	112	-	-
Issue expenses	(61)	(61)	-	-
Actuarial (loss)	(666)	-	(233)	-
Exchange (loss)	(349)	-	(367)	-
Shareholders' deficit at 31 December	(73,178)	(33,986)	(75,479)	(29,898)

28 Minority interest

The Group owns 58.7% of the share capital of Shanghai Stellite Co Limited. For financial reporting purposes, the assets, liabilities and earnings of Shanghai Stellite Co Limited are consolidated with those of the Group and the minority investors' 41.3% share of the assets and profits of Shanghai Stellite Co Limited is recorded as minority interest in the financial statements.

Deloro Stellite India Private Ltd is consolidated for financial reporting purposes with those of the Group and the minority investors' 20.0% share of the assets and profits of Deloro Stellite India Private Ltd is recorded as minority interest in the financial statements.

	2011 Euros 000	2010 Euros 000
Minority interest 1 January	4,225	3,505
Investment by minority	116	-
Share of profit of subsidiary	1,718	1,364
Dividends paid to minority shareholders	(1,288)	(982)
Foreign exchange gain	312	338
Minority interest at 31 December	5,083	4,225

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

29 Related party transactions

The Group has taken advantage of the exemptions available to it under Financial Reporting Standard 8 'Related Party Disclosures', not to disclose any transactions or balances with entities that are wholly-owned subsidiaries of the Group

At 31 December 2011, by virtue of their shareholding the directors consider Duke Street Capital Limited to be the ultimate controlling party of the company

During the year Duke Street V Limited charged the Group €33,000 (2010 €30,000) in respect of management fees and expenses. In addition, during the year ended 2006, Duke Street Capital General Partner Limited and Duke Street Capital V GmbH & Co KG loaned €2,371,000 to the Company at an interest rate of 15% repayable in 2017. Also during the year ended 2009 Duke Street Capital General Partner Limited and Duke Street Capital V GmbH & Co KG loaned €15,000,000 to the Company at an interest rate of 30% repayable on 9 February 2017. Interest of €13,026,366 (2010 €8,170,715) was accrued on the loans at 31 December 2011. Both loans and interest were repaid as part of the sale of the Group to Kennametal Inc on 1 March 2012.

During the year, Shanghai Stellite Co Limited, a 58.7%-owned subsidiary, purchased products from other Group companies amounting to €488,000 (2010 €352,000) and made sales to other Group companies amounting to €583,000 (2010 €480,000). There were no recharges during the year and at the end of the year there was an amount of €67,000 (2010 €27,000) due from Shanghai Stellite Co Limited to other Group companies in respect of trading transactions, €381,000 due to Shanghai Stellite Co Limited from other Group companies in respect of trading transactions and €nil (2010 €1,417,000) due from Shanghai Stellite Co Limited in respect of dividends.

During the year, Deloro Stellite India Private Limited an 80%-owned subsidiary, purchased products from other Group companies amounting to €51,000 (2010 €35,000) and made sales to other Group companies amounting to €1,318,000 (2010 €462,000). Certain fixed assets were transferred from Group companies to the subsidiary at the start up of the operation and at the end of the year there was an amount of €2,618,000 (2010 €2,618,000) due from Deloro Stellite India Private Limited to other Group companies.

30 Effective exchange rate

The effective exchange rate used in the preparation of these financial statements as at 31 December 2011, was Euros 1.15 to £1 (2010 Euros 1.16 to £1).

31 Ultimate and immediate parent undertakings

By virtue of their shareholding in Deloro Stellite Holdings 1 Limited at 31st December 2011, the directors consider Duke Street Capital Limited to be the ultimate controlling party of the company.

The smallest and largest group in which the results are consolidated is that headed by Deloro Stellite Holdings 1 Limited.

Copies of the consolidated financial statements may be obtained from the Company Secretary, Deloro Stellite Holdings 1 Limited, Unit 4, Bicester Business Park, Telford Road, Bicester, Oxfordshire OX26 4LD.

From 1st March 2012 the company and the Deloro Stellite Group were acquired by Kennametal Inc, a company incorporated in the United States of America and listed on the New York Stock Exchange and from that date Kennametal Inc became the ultimate controlling party of the company.

Deloro Stellite Holdings 1 Limited

Notes to the financial statements for the year end 31 December 2011 (continued)

31 Contingencies

The Group, like other manufacturers, is occasionally subject to a variety of proceedings arising in the ordinary course of its business. Such proceedings include product liability claims on its United States subsidiary company, some of which relate to cases alleging personal injury resulting from the sale of welding products to third parties.

Deloro Stellite is typically one of many defendants in these cases that claim compensatory and punitive damages for alleged neurological injury through exposure to manganese in welding fumes. These cases are in different stages of procedural development, and in certain cases are scheduled for trial from time to time.

Deloro Stellite believes that it has strong defences to these claims and intends to defend vigorously such claims, the cost of which is currently being met by its insurer. Based on its experience to date, together with its current assessment of the merits of the claims being asserted and applicable insurance, the Group believes that the welding fume litigation will not have a material adverse effect on its financial condition and no provision has been made.

A subsidiary, Microfusione S p A, has received a claim from the Italian Fiscal authorities relating to the sale of a property in 2001. The authorities claim that the property was sold at an undervalue and therefore have assessed tax of Euro 2 million on a deemed profit. The higher value is the result of the transaction to sell the property being agreed in 1999 and the planning authorities taking 2 years to agree to certain conditions of the sale. Microfusione S p A have appealed against the assessment, however, in the first instance this appeal was rejected and a second appeal has been lodged. The authorities have now requested payment of the tax and associated interest in equal instalments over the next 36 months. Microfusione S p A has informed the purchaser of the property, Intek, who gave an indemnity in respect of any tax liability arising from the sale, and requested that they reimburse Microfusione S p A on a monthly basis. Microfusione S p A continues to defend its position and pursue the second appeal. As such Microfusione S p A has not recorded any liability and the Directors support this position.

32 Post balance sheet events

Sale of the Group

On the 1st March 2012 the entire Group was sold to Kennametal Inc, a US listed global supplier of innovative custom and standard wear-resistant solutions, for €277m. As a result of the transaction the senior and mezzanine loans, Duke Street Capital loans and revolving credit facilities previously owed by the Group have been settled and the Group are no longer bound by the covenants which were a condition of these debts. Kennametal is a leading provider of manufacturing products and services that touch nearly every manufacturing process. The acquisition of Deloro Stellite is in alignment with Kennametal's growth strategy and positions the Kennametal Group to further achieve geographic and end market growth.

The Deloro Stellite Group has been renamed Kennametal Stellite and will continue to trade from its existing locations across the world.