AMG Advanced Metallurgical Group N.V.

Annual Report 2008

innovative metallurgy

AMG develops innovative metallurgical solutions for the following four markets focused on the reduction of CO_2 emissions: Solar is the fastest growing energy technology—highly desireable as a clean, renewable energy source that will never run out. Recycling enables the production of high-technology materials from secondary sources, conserving primary raw materials. The need to reduce CO_2 emissions and achieve greater Fuel Efficiency has led to fierce competition among manufacturers to produce lighter aircraft. Aerospace has seen explosive growth in the use of titanium alloys as a result. A global resurgence of Nuclear power will encourage the growth of nuclear technologies.

RECYCLING VANADIUM, CAMBRIDGE

CRYSTALLIZATION FURNACE, BÉCANCOUR

TITANIUM PROCESSING, NUREMBERG

VACUUM FURNACE, HANAU

At a Glance

Advanced Materials

The Advanced Materials Division develops and produces specialty metals and complex metal products, many of which are used in demanding, high stress environments.

Engineering Systems

The Engineering Systems Division designs and produces advanced vacuum furnace systems for high-purity metals and operates vacuum heat treatment facilities.

Global market presence

AMG applies its metallurgical engineering expertise and production know-how in facilities and sales offices spread across 12 countries on five continents. Advanced Materials operates globally with production facilities in Germany, the United Kingdom, France, the United States and Brazil and operates sales offices in these countries as well as in Belgium, China and Mexico. Engineering Systems operates two furnace production facilities in Germany. It also has four heat treatment services facilities, one in Germany, two in the United States and one in Mexico. Additionally, Engineering Systems operates sales offices in these countries, as well as in Russia, China, and Japan. Timminco operates production and sales facilities in Canada. Graphit Kropfmühl's silicon metal operations are in Germany and its graphite operations are in Asia, Africa and Europe.

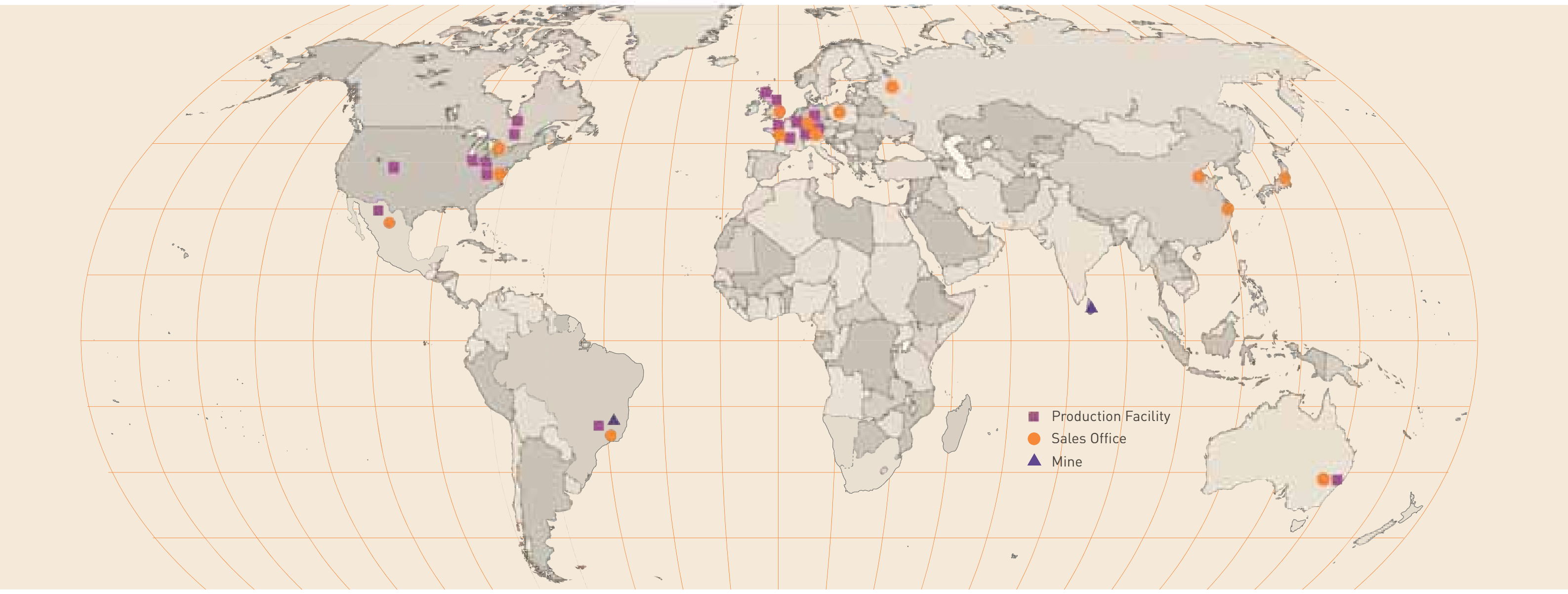
AMG is a leader in advanced metallurgy. Its proprietary know-how derived from the production of specialty metals and metallurgical engineering creates a technology portfolio which helps mitigate the effects of global warming.

Timminco

Timminco Limited is a majority-controlled, publicly-listed subsidiary of AMG. Timminco is a leader in the production of silicon metal and upgraded metallurgical silicon (UMSi) for the solar industry.

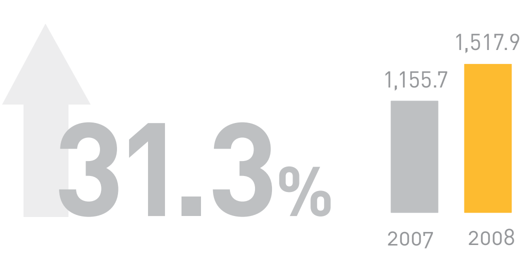
Graphit Kropfmühl

GK is an 80% owned publicly-listed subsidiary of AMG. GK produces silicon metal and is a vertically integrated producer of natural graphite.

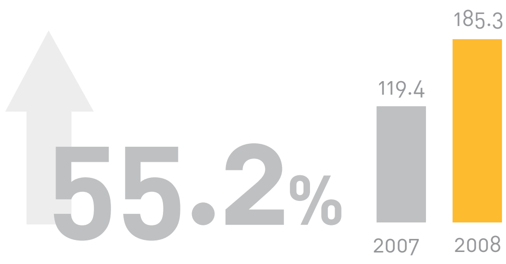


Financial Highlights

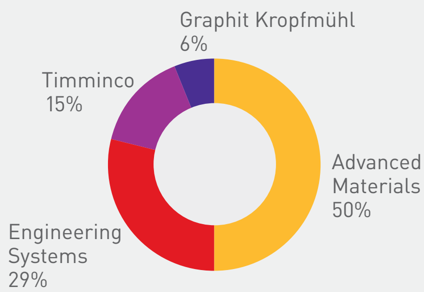
Revenue



Adjusted EBITDA



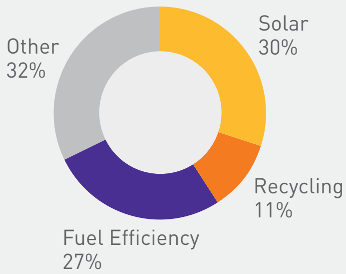
Revenue by Business Unit



	Advanced Materials	Engineering Systems	Timminco	Graphit Kropfmühl
$ in millions	756.7	435.5	237.8	87.9
Gross Margin ($ in millions) 2007	104.3	94.8	2.3	0
Gross Margin ($ in millions) 2008	124.2	136.3	35.9	1.9
Gross Margin % 2007	15	30	1	0
Gross Margin % 2008	16	31	15	2

AMG's financial results for 2008 exhibited significant growth and margin improvement compared to 2007. AMG's success is a result of continuing operational initiatives and new product and systems innovations. Key financial highlights are summarized below.

Revenue by End Markets



					other
$ in millions	452.4	167.1	410.4	2.8	485.2
Margin ($ in millions) 2007	39.9	32.6	66.9	0	62.0
Margin ($ in millions) 2008	116.7	43.3	76.9	1.4	60.0
Margin % 2007	19	28	18	N/A	13
Margin % 2008	26	26	19	50	12

Operational Highlights

Advanced Materials

- Expanded coating materials line of products for thin film solar applications
- Achieved record ferrovanadium production and secured long term contract for supply of spent refinery catalysts to support vanadium expansion project

other

- Substantially completed expansion of tantalum mining production in Brazil and associated hydroelectric power plant

Timminco

(Majority-owned public subsidiary)

- Shipped 1,045 mt of upgraded metallurgical solar silicon (UMSi), up from 89 mt in 2007
- Completed construction of first solar silicon facility in Bécancour, Canada and added three additional production lines by year-end

New innovative technologies are created by developing new furnace designs and through the learning process of furnace operators. The intensive dialogue between operators and engineers provides a unique source of learning and innovation.

Engineering Systems

- Increased in-house production of DSS furnaces from four in 2007 to 200 in 2008 and continued expansion of Berlin facility
- Completed the fourth heat treatment services facility on-time and on-budget
- Acquired full ownership of FNAG joint venture for the development and engineering of nuclear process technologies

Graphit Kropfmühl

(Majority-owned public subsidiary)

other

- Completed first phase of expansion of silicon metal operations
- Restructured the graphite business, moving operation to lower cost production sites in the Czech Republic

Dear Shareholder,

During 2008 AMG achieved record performance, growing revenues 31% and EBITDA 55% over 2007. This followed 24% revenue growth in 2007 over 2006 and EBITDA growth of 65%. The two year average growth for revenues and EBITDA was 28% and 60%, respectively. AMG achieved a 26% return on capital employed ("ROCE")[1]. We achieved these results despite the sudden and dramatic downturn in specialty metals prices and volumes during the fourth quarter as the global economic crisis accelerated.

The Advanced Materials Division's performance was severely affected by the worldwide economic shocks which continue to adversely impact its business. We initiated and continue to intensify various countermeasures. In December, we also adjusted the value of our inventory in line with the reduced metals price levels, which primarily affected our ferrovanadium recycling business.

After a record year in 2008, the Engineering Systems Division continues to operate from a platform of a large order book. Looking ahead, we are cautiously preparing for the scenario of a prolonged downturn beyond the visibility of this backlog. In any case, given the extremely high degree of uncertainty in the economy, it is prudent to operate with several scenarios ranging from a recovery beginning at the end of 2009 to a prolonged and severe recession.

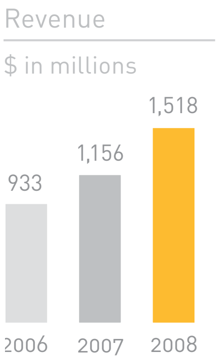
Our silicon related activities at Timminco have been focused on the ramp up of capacity to produce upgraded metallurgical silicon (UMSi). This, however, must be consistent with actual shipments and demand interruptions which occurred in the first quarter of 2009. We also continue trials to further improve the quality of our products, and focus on interaction with customers to standardize the way UMSi is processed in vacuum furnaces to secure high cell efficiency.

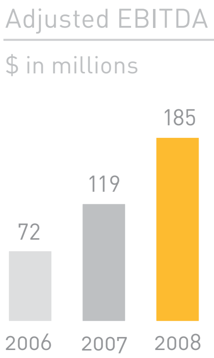
In June 2008 AMG closed on the acquisition of an 80% equity stake in Graphit Kropfmühl AG, ("GK"), a publicly traded specialty materials company with mining and refining activities in natural graphite and silicon metal production. GK has the capacity to produce over 30,000 mt of silicon metal annually. GK also mines and processes natural graphite for a wide range of applications including special expertise in its use in the nuclear fuel cycle.

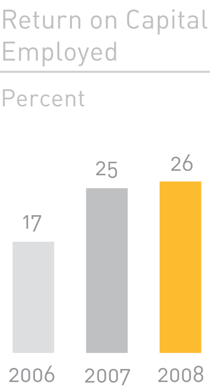
2008 Financial Results

AMG's total consolidated sales in 2008 were $1.5 billion, a 31% increase over 2007. Adjusted EBITDA increased 55% over 2007 to $185 million. The two year average growth for revenues and EBITDA was 28% and 60%, respectively. This increase would have been higher except for the write down of specialty metals inventories as a consequence of the fall in metals prices, in particular the price of ferrovanadium, in the fourth quarter of 2008. Our consolidated EBITDA margin increased to 12% from 10% in 2007; our ROCE was practically unchanged at 26%.

[1] EBITDA growth, along with ROCE are important components of AMG's executive compensation structure.







Overall, given the adverse economic climate experienced during the fourth quarter and the associated risks, the operational and financial performance of AMG in 2008 was very strong. We benefited from our strategic initiatives to concentrate on engineering services and equipment for solar, titanium and high performance steel, primarily for applications in the power generation sector. We also benefited from the contributions of our niche specialty metals products including recycled vanadium, and from high-value-added metal alloys and coatings, including applications in the thin film solar industry sector such as rotatable targets. We benefited from our continuous efforts to be a low cost producer and to enhance our positions in the various specialty metals value chains in order to increase margins and to reduce volatility. We are intensifying activities to counterbalance the negative impact of the global economic crisis.

Management of Risk in a Global Economic Crisis

In the unfolding economic crisis, Risk Management has acquired a new meaning as the traditional ways to handle uncertainty and specific risks are no longer sufficient. This relates, for example, to the systemic risk of customer default caused by the default of the customers of customers.

Macroeconomic and Sector Uncertainty

Over the years we have become accustomed to managing company-specific risks in a macroeconomic environment consistent with future Gross National Product (GNP) growth rates within a narrow band representing a relatively stable consensus. Today, the global economy is in a confused state and all bets are off as to when the current situation will stabilize and when an upturn will eventually begin. Until then, most companies have to use visual flight rules and be extremely nimble in dealing with changes in current market conditions.

Another macroeconomic activity that deserves monitoring is the enormous expansion of the Monetary Base, especially in the United States during the fourth quarter of 2008. On a global basis, this could result in a sudden inflationary outbreak while the economy still retracts.

Some economists are already predicting this could happen as early as late 2009. Such a development would likely lead to a commodity price surge. Recently, the fundamental capacity of many specialty metals operations has been decreasing and only a portion of that eliminated capacity is likely to come back into service if prices return to a satisfactory level.

In the past, there was a certain sequence by which industry sectors went through cycles. This "norm" appears not to exist anymore as the severity of the downturn has compressed this sequence into one broad movement. In 2008, the industrial economy, such as the steel industry, has been hit even harder than the banking sector, with the U.S. steel industry operating at below 40% capacity utilization at year end 2008. AMG's management is operating under the assumption that an economic turnaround will not occur in the near or medium term and that, therefore, all efforts have to be on productivity, on reducing costs, on product mix optimization and on a highly selective process for expenditure and capital investment authorization.

Accounts Receivable and Customer Default Risks

We were also accustomed to managing accounts receivable risks as a secondary risk with minimal impact on financial affairs. That also has changed profoundly. It is now possible that presumably sound companies fail on short notice because of a lack of financing

50%

The risk of failure to innovate requires even more intense attention and a carefully planned resolution of the conflict between cash conservation and managing the future viability of the company. As an innovation-driven organization, we are acutely aware of this. In broad strokes, about 50% of our EBITDA in 2008 was derived from activities not existing 5 years ago.

options, especially in the event of defaults by their customers. It is not unrealistic to expect massive and systemic risks of "accounts receivable" turning into "uncollectible accounts". The risk of having to write off particular accounts receivable is further compounded by the fundamental risk of customers going out of business, defaulting under longer term purchase agreements and/or attempting to re-negotiate contracts, delay shipments, et cetera. We are facing such risks, especially in the Advanced Materials Division, at Timminco and at Graphit Kropfmühl.

Price Collapse in Specialty Metals

In regard to the short term price risk of specialty metals, we cannot take comfort in a commodity exchange with forward pricing like the London Metal Exchange. Theoretically, the only hedge contracts available for a number of our specialty metals are between a supplier and a customer. In order to escape such tremendous volatility, we are attempting step by step to optimize our position in the value chain of each metal in such a way that we end up with a low-cost long position. This, and only this, will enable AMG to offer customers volatility-reducing formulas for long term prices.

A review of AMG's portfolio of metals that are normally quoted in tons — chrome metal, ferro-titanium, magnesium, silicon metal and aluminum — indicates an extraordinarily high level of price volatility. In addition, AMG's specialty materials that are normally quoted in pounds — nickel, molybdenum, ferrovanadium and tantalum — also have high levels of volatility. Over a 10 year period, ferro-titanium, ferrovanadium, nickel, molybdenum and tantalum have volatilities exceeding 70%.

It has to be noted that *our* volatility derived from those price movements is substantially less since we have (a) positioned ourselves primarily as "converters" — the customer pays for the conversion and the cost of underlying metal flows through, i.e. is being invoiced and (b) established low-cost long positions in tantalum, niobium, graphite, quartz (by way of AMG mines) and partially in ferrovanadium and ferronickel-molybdenum (by way of specially structured long-term supply contracts). We are working hard to further improve this position.

Currency Shifts and Volatility

The volatility of currencies has substantially increased with currency swings in the fourth quarter 2008, showing an erratic pattern not experienced in modern times: the US$/CA$ rate going from 1.04 to 1.22; the £/$ rate from 1.82 to 1.45; the £/€ rate from 1.26 to 1.03; the US$/€ rate from 0.69 to 0.71; the BRL/US$ rate from 0.53 to 0.43. For a global company producing in the US, Canada, the Euro zone, the UK and Brazil, this has massive operating and profitability implications. AMG has been navigating through these volatilities aided by "natural" short positions in the BRL, the GBP and the CA$. We also have further refined our short term currency hedging policies which aim to improve the probability of achieving yearly budgets.

Capacity Under-Utilization

In past economic cycles, during periods of falling prices, we generally did not experience difficulties maintaining capacity production levels. In the fourth quarter, several of our end markets, including steel, aluminum and silicon products, radically reduced production.

In those instances we were and we continue to be negatively affected not only through falling prices, but also by lower demand and therefore higher unit costs due to decreased production rates. The decrease in demand coupled with the decline in prices make implementing countermeasures against falling profitability difficult. We are aware that the metal industry is characterized by a high rate of fixed costs and a percentage of total costs.

Temptation to Abandon Innovation

One could be tempted, in times like these, to postpone innovation initiatives and reposition and wait for an "all clear" signal. That is the worst response to the current crisis. By doing this, the very future of the company is called into question once the storm is over. The risk of failing to innovate requires even more intense attention and a carefully planned resolution of the conflict between cash conservation and managing the future viability of the company. As an innovation-driven organization, we are acutely aware of this. In broad strokes, about 50% of our EBITDA in 2008 was derived from activities that did not exist five years ago. We have to stabilize this trend to maintain our profitability in the long term.

Radically Reduced Financing Options

We had also become accustomed to versatile capital markets with a vast capacity to obtain senior debt, subordinated debt and equity. Those markets appear to be closed — or available only at very high cost — for the time being. One has to assume that the debt currently in place is the total debt available and that equity is either unavailable or prohibitively expensive given the state of share price levels and the reduced universe of investors seeking equity investments. AMG's net debt levels are 0.5x 2008 EBITDA and we are targeting to improve this further. We are taking comfort from the fact that our bank debt facilities do not expire until August 2012.

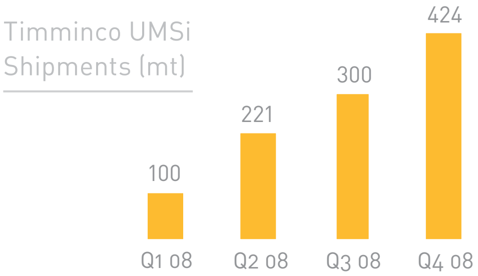
Solar

In 2008 AMG's activities in solar energy were the largest driver of our growth. AMG is active in the solar market through silicon metal production at Graphit Kropfmühl and Timminco, UMSi production at Timminco, engineering of directional solidification systems for crystalline solar silicon in the Engineering Systems Division and production of rotatable targets for thin film solar applications in the Advanced Materials Division. This diverse portfolio enabled AMG to participate in multiple stages in the solar value chain. AMG generated $452.4 million in revenues from these activities during 2008.

Our Engineering Systems Division increased production of directional solidification systems for the crystalline solar industry in our Berlin plant from four furnaces in 2007 to 200 furnaces in 2008. This ramp up is a major operational achievement and has been attained despite a number of critical hurdles.

The Advanced Materials Division made significant progress in its targets for thin film coatings. AMG's rotatable zinc oxide targets are used to coat thin film solar cells and improve the sunlight-to-electricity conversions of those cells. We are currently focusing on expansion of target materials for CiGS thin film cells.

Timminco ramped up its UMSi production and shipments to 1,214 mt and 1,045 mt, respectively. We are making significant progress in learning how to meet the many challenges which occur in the large scale commercialization of a completely new process with a new workforce in a new plant. While these challenges will continue, we are confident in our ability to meet our customers' expectations in 2009 and beyond.



The solar industry is working though a dramatic market slowdown which is leading to inventory reductions along the value chain. It is currently difficult to predict the extent and the duration of the slowdown and the impact that slowdown will have on the multitude of participants in the solar industry. In the near term, this slowdown will adversely impact our solar furnace business and Timminco's UMSi shipments. The reduction in worldwide solar silicon production has also reduced the demand for silicon metal which, in turn, has resulted in Timminco's decision to temporarily shut down its silicon metal smelters. Despite this, we believe that the secular trend supporting the solar industry remains fundamentally sound; however, the question of when significant growth will resume cannot be stated with any degree of certainty.

Fuel Efficiency

Several of our titanium alloy products are critical components of energy saving solutions such as in aerospace and stationary natural gas turbines. The titanium alloys product line developed satisfactorily in 2008. Titanium furnace deliveries for aerospace and industrial gas turbines in our Engineering Systems Division increased approximately 15% over the already high level of 2007. Titanium master alloy sales increased by 5% over 2007, despite the sharp down-turn in price and volume during the fourth quarter. We are working to complement our position in the titanium value chain through efficiency improvements in production of high-purity titanium alloys and new process technologies aimed at eliminating expensive conversion steps through a combination of furnace designs and tailor-made alloys.

Given the current weakness in the aerospace and transportation sectors, the fuel efficiency end markets will face challenges in 2009. As such, AMG has taken steps to better align its position in the value chain, especially for titanium, through reducing head count and streamlining operations. In January 2009, AMG announced a significant reduction in its workforce. While this process entails difficult decisions, it is ultimately in the best interest in the long term viability of the business.

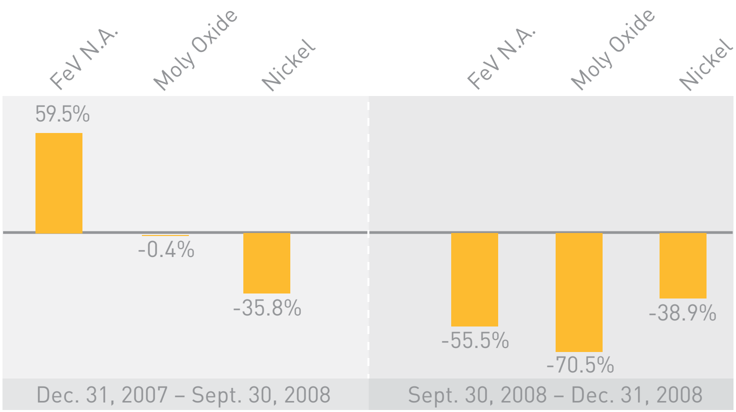
In December 2008, AMG announced the formation of a joint venture with Norsk Hydro ASA, Norway, for the development of an innovative magnesium metal process and its implementation in Norway.

Recycling

Recycling is a key component of AMG's strategy to access low cost and low volatility raw material sources. During 2008 AMG signed a multi-year agreement with a major operator in the Alberta Oil Sands to process and recycle additional quantities of spent catalysts. AMG's Advanced Materials Division produces ferrovanadium and ferronickel-molybdenum from these spent catalysts as well as from North and Central American power plants. While the contract with a major operator in the Alberta Oil Sands provides AMG with a volatility-reducing long position, AMG is currently working to further reduce volatility associated with its other more traditional raw material supply contracts.

AMG's recycling business delivered solid performance in 2008, generating $167.1 million in revenues, despite a rapidly deteriorating macroeconomic environment during the fourth quarter. This represented 46% growth over 2007. This growth was the result of increasing

Selected Market Prices for Ferrovanadium, Molybdenum and Nickel



demand and strong prices during the first three quarters of 2008 for ferrovanadium, which is used primarily in structural steel to increase the strength-to-weight ratio.

Selected Market Prices for Ferrovanadium, Molybdenum and Nickel

The market softened dramatically in the fourth quarter of 2008 and although AMG is uniquely positioned as the largest low cost secondary producer globally, performance of this unit will depend upon an upturn in the global infrastructure markets.

Nuclear

2008 was a year of substantial progress for AMG in its nuclear end markets. AMG's Engineering Systems Division formed a joint venture, Furnaces Nuclear Applications Grenoble S.A., to design and produce sintering systems for a number of nuclear applications. Subsequently, AMG acquired the balance of the joint venture that it did not own, bringing crucial engineering experience and expertise fully under the AMG name. This unit won a high profile contract with Shaw Areva MOX Services LLC for the detailed engineering of sintering furnace systems for the production of mixed oxide nuclear fuels. AMG now has the world's leading vacuum furnace engineering team specializing in nuclear technologies. In addition, the acquisition of Graphit Kropfmühl provides a vertically integrated source of natural graphite, an important material for use in modern nuclear applications. We believe that nuclear energy will be a key component of the global strategy to provide secure, low emission power to a growing planet. AMG's engineering technologies and niche specialty metals will participate in providing the essential tools necessary to support this growth.

Outlook

2009 will be a challenging year. Our visibility in Advanced Materials, Timminco and Graphit Kropfmühl is limited. In these business units, the management team is focused on preserving free cash flow by reducing costs, streamlining operations, limiting all non-essential capital investments and adjusting production levels to meet reduced demand perspectives. We are also positioning these businesses for long term growth when the current economic cycle ends. On the other hand, the Engineering Systems Division's backlog provides reasonable visibility for 2009 and we expect relatively stable performance and cash flow generation.

Despite this, we will not reduce, but rather we will reinforce our dedication to clean energy and energy savings trends that dominate our business model. AMG's portfolio approach will provide some insulation from the current global crisis and we will continue to adjust our value chain positions to reduce the volatility of our cost positions. While 2009 will be difficult, we believe that the CO_2 reduction end markets which we serve — Solar, Recycling, Fuel Efficiency and Nuclear — will provide opportunities for long term growth.

Dr. Heinz C. Schimmelbusch
Chief Executive Officer

Report of the Management Board

Dr. Heinz Schimmelbusch
Chairman & Chief Executive Officer
64

Arthur Spector
Deputy Chairman
68

William Levy
Chief Financial Officer
49

Eric Jackson
President, Advanced Materials
56

Dr. Reinhard Walter
President, Engineering Systems
57

Dr. Schimmelbusch was appointed Chief Executive Officer and Chairman of the Management Board on November 21, 2006. He has served in a similar capacity for businesses comprising AMG since 1998. Dr. Schimmelbusch also serves as nonexecutive chairman of the board of various companies, including Allied Resource Corporation, in the United States and Chairman of the Supervisory Board of PFW Aerospace, Speyer, Germany. Dr. Schimmelbusch is also Chairman and CEO of Timminco Limited and a Managing Director and a founder of Safeguard International Fund, L.P. Dr. Schimmelbusch served as Chairman of Metallgesellschaft AG from 1989 until he resigned in 1993. His directorships have included Allianz Versicherung AG, Mobil Oil AG, Teck Corporation, and Methanex Corporation. Dr. Schimmelbusch received his graduate degree (with distinction) and his doctorate (magna cum laude) from the University of Tübingen, Germany.

Mr. Spector was appointed Deputy Chairman of the Management Board on November 21, 2006, the date of incorporation of the Company. Since 1998, Mr. Spector has served in a similar capacity for the businesses currently owned and operated by AMG. Mr. Spector is also Vice Chairman and Director of Timminco Limited and is a Managing Director and a founder of Safeguard International Fund, L.P. From January 1997 to March 1998, Mr. Spector served as Managing Director of TL Ventures LLC, a venture capital company. Mr. Spector has significant executive experience, having served as chairman and chief executive officer for a number of public companies including State National Bank of Maryland and Neoware, Inc. Mr. Spector received a BS degree (with honors) in economics from the Wharton School at the University of Pennsylvania and a JD (magna cum laude) from the University of Pennsylvania Law School, United States.

Mr. Levy was appointed Chief Financial Officer and member of the Management Board on April 1, 2007. Mr. Levy has been employed by a subsidiary of AMG since 2005. Previously, he was CFO of PQ Corporation, a leading global chemicals and engineered glass materials company. He was appointed Vice-President and Chief Financial Officer of PQ Corporation in 2002. From 1984 to 1996, Mr. Levy held various senior positions in finance and marketing with Imperial Chemical Industries plc in the United Kingdom and the United States. In 1984, Mr. Levy qualified as a certified public accountant with PricewaterhouseCoopers LLP, in the United States. Mr. Levy received a BS degree in accountancy (magna cum laude) from Villanova University, United States.

Mr. Jackson was appointed President of the Advanced Materials Division and member of the Management Board on April 1, 2007. Mr. Jackson has served in various senior capacities for businesses now owned by AMG since 1998. He previously acted as Director at Phibro, a division of Salomon, Inc, and as Vice-President at Louis Dreyfus Corporation. In addition, from 1979 to 1989 Mr. Jackson acted in various roles for Cargill Incorporated in Canada and the United States. Mr. Jackson received a BS degree in economics and an MBA, both from the University of Saskatchewan, Canada.

Dr. Reinhard Walter was appointed President of the Engineering Systems Division and member of the Management Board on April 1, 2007. He has served on the management board of directors of companies in the Division since December 2001, and has served as chairman of the management board of ALD since September 2004. From 1997 to 2001, Dr. Walter acted as Chief Financial Officer and Deputy Chairman of VBH Holding AG, Germany. He was a member of the management board in Berzelius Umwelt-Service AG, a recycler of industrial residues. From 1983 to 1988 he was Managing Director of Uraphos Chemie GmbH, a company operating engineering and recycling services for industrial waste. Dr. Walter received a business administration degree and a doctorate in economics from the University of Saarbrücken, Germany.

Advanced Materials Division

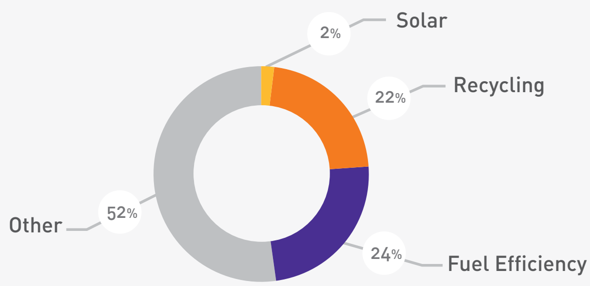
$756.7M

Revenue increased 10% over 2007

$62.1M

EBITDA grew by 13% from the comparable period in 2007

Revenue by market 2008



The Division had record operating results for 2008, increasing sales by more than 10% to $756.7 million and expanding EBITDA by 13% to $62.1 million. Although record results were achieved for the year, the global economic crisis and the resulting collapse in demand and prices led to margin compression, inventory write-downs and a fourth quarter operating loss. Entering 2009, the Division faces uncertain demand in many of its end markets, specifically infrastructure, energy and fuel efficiency. The year 2009 will be challenging and aggressive actions are being taken to reposition the businesses for a dramatically changed environment. The Division is reducing staffing by more than 15% from the end of the third quarter and has deferred almost all discretionary capital spending. The Division's objective in 2009 is to deliver increased cash flow stemming not only from operations but also a reduction in working capital and reduced capital spending.

Metals Prices

Market prices have dropped across all metals markets. Although in certain markets AMG is a converter which passes through metals costs to its customers, in other businesses it purchases metals for its own account and, accordingly, has metals price risk. An example of the latter is ferrovanadium, where the price has decreased from $29.50/lb to $13.13/lb during the fourth quarter 2008.

$	Antimony	Cr Metal	Vanadium[1]	Mo Oxide	Nickel
Dec 31, 2007	5,608/mt	4.70/lb	18.50/lb	32.38/lb	12.46/lb
Sep 30, 2008	6,750/mt	5.83/lb	29.50/lb	32.25/lb	8.00/lb
Dec 31, 2008	4,462/mt	4.25/lb	13.13/lb	9.50/lb	4.89/lb
Q4 Decrease	-33.9%	-27.1%	-55.5%	-70.5%	-38.9%

[1] Price is Ferrovanadium North America. AMG also produces vanadium pentoxide.

AMG's Advanced Materials Division is a global leader in the production of specialty metals, alloys and high performance materials.

RECYCLING VANADIUM

Recycling

The Division's vanadium recycling operations delivered record annual production of 4.6 million pounds of ferrovanadium and 1.3 million pounds of vanadium pentoxide. Strong results for the first three quarters of the year were offset by lower demand in the fourth quarter as a result of the dramatic downturn in steel production and lower demand for ferroalloys. In our primary ferrovanadium market, the North American steel industry, capacity utilization rates fell from 90% for much of 2008 to 35% at year-end. This collapse in demand resulted in substantially lower prices for ferrovanadium and ferronickel-molybdenum as prices fell more than 50% in the last three months of the year. This resulted in a substantial increase in inventory and significant margin compression during the fourth quarter and required year-end inventory write-downs. In order to maximize liquidity, the timetable for the unit's expansion has been extended to better match demand and reduce 2009 capital expenditures.

Key achievements

- Attained record revenue and EBITDA of $756.7 million and $62.1 million
- Achieved record production levels for ferrovanadium and ferronickel-molybdenum
- Expanded capacity, increased sales of thin film solar coating materials by 35% over 2007 and continued to expand product line of proprietary coating materials and processes for thin film photovoltaic market
- Doubled tantalum mining capacity to 300,000 pounds tantalum oxide per annum with contract for sale of 2009 production
- Entered into 50/50 joint venture with Norsk Hydro ASA to further develop technology for low cost production of magnesium and precipitated silica in Norway
- Expanded Brazilian hydroelectric power plant capacity

The Advanced Materials Division's objective is to deliver increased cash flow in 2009 despite a difficult and challenging environment.

Fuel Efficiency

Titanium has the highest strength-to-weight ratio of any metal. Its use reduces weight which drives fuel efficiency. New aircraft models use increasing amounts of titanium thereby driving industry growth. The Division's titanium master alloys and titanium aluminide businesses reported excellent full year results. Although sales improved year-over-year, fourth quarter results were weaker than the first three quarters on reduced demand from the aerospace sector. This business continues important development projects such as developing titanium aluminide products for aerospace applications, among others.

Chromium metal products are used in alloys for jet engines and gas turbines. These products delivered strong 2008 full year results on slightly higher volume, higher prices and improved margins. Margins were expanded based on well-positioned raw material supplies, improved product mix and strong end market demand. This market also weakened significantly in the fourth quarter of the year resulting in year-end inventory levels being higher than planned.

Solar

Coating materials sales to thin film solar end markets increased by 35% as AMG gained market share. In particular, AMG's leadership in coating materials for thin film solar panels is driven by its production of rotatable sputtering target materials for transparent conductive oxides. These oxides are performance-critical external coatings, applied by vapor deposition in layers as thin as 1 micron, to enhance the efficiency of thin film solar cells.

Other

Aluminum powders and aluminum master alloys delivered disappointing full year results on essentially unchanged volumes but weaker margins. This segment suffers from excess global capacity and weak end markets. The aluminum powders business was downsized midyear as one of the three production lines was closed to focus on higher value-added alloy powders. This resulted in a 25% reduction of staffing. The two aluminum master alloy production units continue to consolidate activities and streamline management.

Tantalum products had a difficult 2008 as the strong Brazilian Real and weak demand resulted in higher costs and increased inventory levels. The Division substantially completed the doubling of its low cost tantalum ore mining capacity and has contracted to sell the plant's full capacity for 2009. The closure of the world's largest supplier of tantalum concentrates and a weaker Brazilian Real positions the company to improve on its 2008 performance. The completion of the hydroelectric power plant in 2009 will contribute to lower operating costs in the second half of 2009.

The Division's antimony operation is the largest European producer of antimony trioxide.
The unit was able to maintain strong margins with year-over-year sales increasing by 10%.

VANADIUM ALUMINUM – A TITANIUM MASTER ALLOY

Outlook

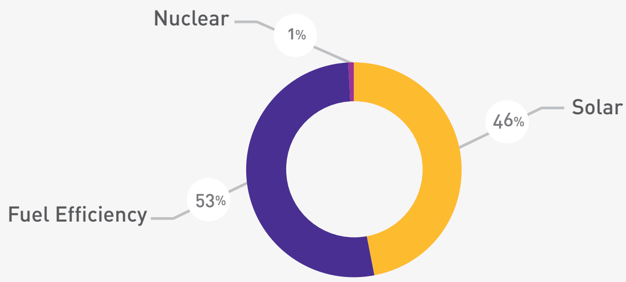
The near term outlook for the Advanced Materials Division is challenging. Demand for many of its key products has weakened with the global recession and prices have fallen precipitously. These effects will continue to be felt at least through the first half of 2009 as margins are compressed and operations run at less than full capacity. AMG continues, however, to believe in the competitive position of its products and the value that they deliver to customers. The Division's current focus is to aggressively reduce costs, selectively invest in high opportunity projects and position the businesses for successful operations even if present conditions persist.

Engineering Systems Division

$435.5M
Revenue increased 40% over 2007

$95.6M
EBITDA grew by 38% from the comparable period in 2007

Revenue by market 2008



The Division achieved record operating results in 2008, increasing sales by more than 40% to $435.5 million and increasing EBITDA by 38% to $95.6 million. The growth was driven by increased sales of directional solidification systems (DSS furnaces) to the solar industry and vacuum remelting systems to the fuel economy market, primarily for titanium applications. The Division entered 2009 with a strong backlog of over $332 million, 32% above the backlog at December 31, 2007.

Operations

Order intake for 2008 increased by 21% over 2007 to $514 million. Furnace orders from the solar industry and titanium producers accounted for the majority of the Division's growth. In particular, order intake from the solar industry reached $292.8 million in 2008, an increase of 51% over 2007. In the fourth quarter, demand for remelting systems for the production of components of industrial gas turbines was remarkably strong, reflecting the replacement of obsolete turbines worldwide.

The Division requires its customers to secure orders by advance payments. To date, the Division has been only modestly impacted by the current economic crisis. Nevertheless, the Division maintains a significant percentage of temporary employees and subcontractors and is able to adjust workforce levels. The Division is prepared to further reduce costs in 2009 should there be a decline in demand.

After a strong start, the Division's tolling-based heat treatment services had a challenging second half of 2008. As many customers are in the automotive industry, this business unit has been significantly affected by the current downturn. More than 20% of capacity was idled during the second half of 2008. This business unit is prepared for a prolonged downturn and has reduced payroll costs by 22%.

Markets

The demand for high-tech alloys and metals in the markets served by the Division, particularly aerospace and energy, remained strong through the first three quarters of 2008 and declined in the fourth quarter.

The Engineering Systems Division produces advanced vacuum furnace systems, primarily for titanium applications and solar energy markets.

VACUUM ELECTRO SLAG REMELTING FURNACE

As in 2007, Asia and Europe were the primary markets during 2008, with 34.4% and 50.4% of revenues, respectively. Within Asia, the Indian market is becoming much more important because of the change in the export control policy of the German Government. For the first time, the Division was able to sell several systems to the Indian aviation and energy industries, a promising signal for the future. North America represented 15.0% of revenues. The growth in the North American market was driven by the aerospace and solar industries.

Although the number of requests for quotations remains high, credit market problems are causing significant delays in the decision making process.

Fuel Efficiency

Reduced weight and improved strength of component parts are crucial for gains in fuel efficiency. Given that titanium has the highest strength-to-weight ratio of any metal, improvement in fuel efficiency is driven by the creation of titanium parts. The Engineering Systems Division offers a large spectrum of furnace

Key achievements

Achieved record revenue and EBITDA of $435.5 million and $95.6 million

Increased furnace backlog to $332 million at year-end, despite slowing orders in the fourth quarter, exceeding 2007 high by 32%.

Increased production at Berlin plant to 200 DSS furnaces in 2008, compared to four furnaces in 2007

Established dedicated nuclear subsidiary and signed contract with Shaw Areva MOX Services, LLC to engineer nuclear sintering furnaces in the United States

Started production on schedule at new heat treatment services facility in Mexico

DSS CRYSTALLIZATION FURNACE FOR SOLAR SILICON

systems for the conversion of titanium sponge, scrap or revert material into commercial grade or alloy grade titanium.

The Division continued its world-leading position in vacuum arc remelting furnaces for processing titanium and titanium alloys. In particular, the Division's electron beam furnaces utilize an energy efficient process for recycling titanium scrap and revert material. Although the delayed production of new aircraft such as the Airbus A380 and Boeing 787 negatively impacted the short term demand for titanium, the growth of titanium sponge production and the large spectrum of applications for titanium should result in long term growth. Applications for titanium alloys include aircraft structural parts, heat exchangers and medical implants.

Fuel efficiency-related revenues grew from $200 million in 2007 to $231 million in 2008, although the percentage of total sales declined from 64.2% to 53.0%, reflecting the rapid growth of the Division's solar-related sales.

Solar

The Division's principal products are DSS furnaces. These systems are used either to process polysilicon for the production of solar ingots (later sliced into photovoltaic wafers) or to purify metallurgical silicon for the production of UMSi. Incoming orders increased by 45%, as compared to the record level reached a year before. Solar-related sales grew from 36% of the Division's total sales in 2007 to 46% in 2008.

Nuclear

The Division took full control of Furnaces Nuclear Application Grenoble S.A. (FNAG), a joint venture originally formed in 2007. In 2008, FNAG was awarded a detailed engineering contract for sintering furnaces for the Shaw Areva Mox Fuel Fabrication Facility in South Carolina, USA. This facility will recycle weapons-grade plutonium and mix it with uranium oxide to form mixed oxide fuel elements for light water reactors. This contract forms the basis for further growth in the nuclear market.

The Engineering Systems Division has also commenced development of a graphite-glass matrix technology to allow for the long term safe storage of radioactive waste. The technology is based on proven processes used for the production of prismatic nuclear fuel elements developed for high temperature reactors. Although this technology is still in the development stage, the Division has applied for several international patents. According to initial tests, the graphite-glass blocks containing nuclear waste allow for safe disposal for more than a million years, thus addressing recent concerns about the current vitrification technology.

Production

Traditionally, the Engineering Systems Division subcontracted the production of its vacuum furnace systems to a network of experienced suppliers. To support growth resulting from the significant increase in demand for its DSS and heat treatment furnaces, production was brought in-house during 2008. Production

capacity for DSS furnaces for solar silicon was increased from two furnaces per week in the first quarter of 2008 to seven furnaces per week by the end of 2008.

Additionally, $7.2 million was invested in property, plant and manufacturing equipment to enable the manufacture of a broader range of products at the in-house facility. This investment has shortened delivery lead times, making the company more responsive to the demands of the market.

New Product Development

The Engineering Systems Division continued to develop new products, especially for solar energy and the next generation of electron beam-based energy sources to process refractory metals at temperatures above 2,000°C more efficiently.

In 2008, the focus was on the next generation DSS furnaces for solar silicon with a crucible capacity of about 600 kg. This new furnace type will reduce the cost of ownership and further contribute to the industry's target of achieving grid parity.

Furthermore, a new generation of electron beam guns for the production of refractory metals at temperatures above 2,000°C was successfully tested and will now be installed in a pilot plant to analyze applications in metal production in the electronics and photovoltaic industry.

The Research & Development program is also focused on improving the performance of its established furnace systems and to prepare access to new markets, such as heat treatment for aerospace and casting for industrial gas turbines.

Outlook

The Division's order backlog provides a relatively high degree of visibility for 2009. Nonetheless, the economic crisis makes forecasts subject to significant uncertainty.

The broad product range and the advanced technology standards of the Division's vacuum systems give AMG a significant competitive edge in the markets addressed. The geographic diversification and the portfolio of end markets which the Division serves will help mitigate some of the challenges resulting from the current economic crisis.

Timminco Limited

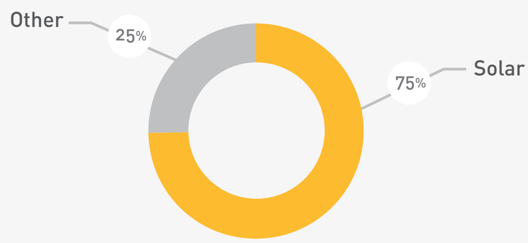
$237.8M

Revenue increased 53% over 2007

$20.0M

EBITDA grew by $24.9 million from the comparable period in 2007

Revenue by market 2008



Timminco revenues and EBITDA for 2008 were $237.8 million and $20.0 million, respectively, compared to $155.5 million and a loss of $4.9 million in 2007. The primary driver of these increases was the core solar silicon business. Timminco believes its gross margin per ton of UMSi will improve in 2009 as the Bécancour plant achieves operational efficiencies and as fixed costs are spread over increased production of UMSi.

Although the company had EBITDA of $20.0 million in 2008, it suffered a net loss stemming from write-offs relating to the closure of its legacy magnesium business in Canada and its minority investment in Fundo Wheels. After adjusting for these non-recurring items, Timminco generated net income of $1.2 million in 2008 compared to a loss of $7.0 million in 2007.

Solar Grade Silicon

Timminco's solar silicon business achieved revenues of $59.4 million in 2008, an increase of $55.8 million over 2007. Timminco began commercial production of UMSi in 2007 and signed four long term contracts with manufacturers of solar silicon ingots in that year.

Anticipating significant additional demand, the company began construction of an expanded facility in early 2008. By the end of the year, Timminco had achieved important milestones: six purification lines had been commissioned and additional long term contracts were signed.

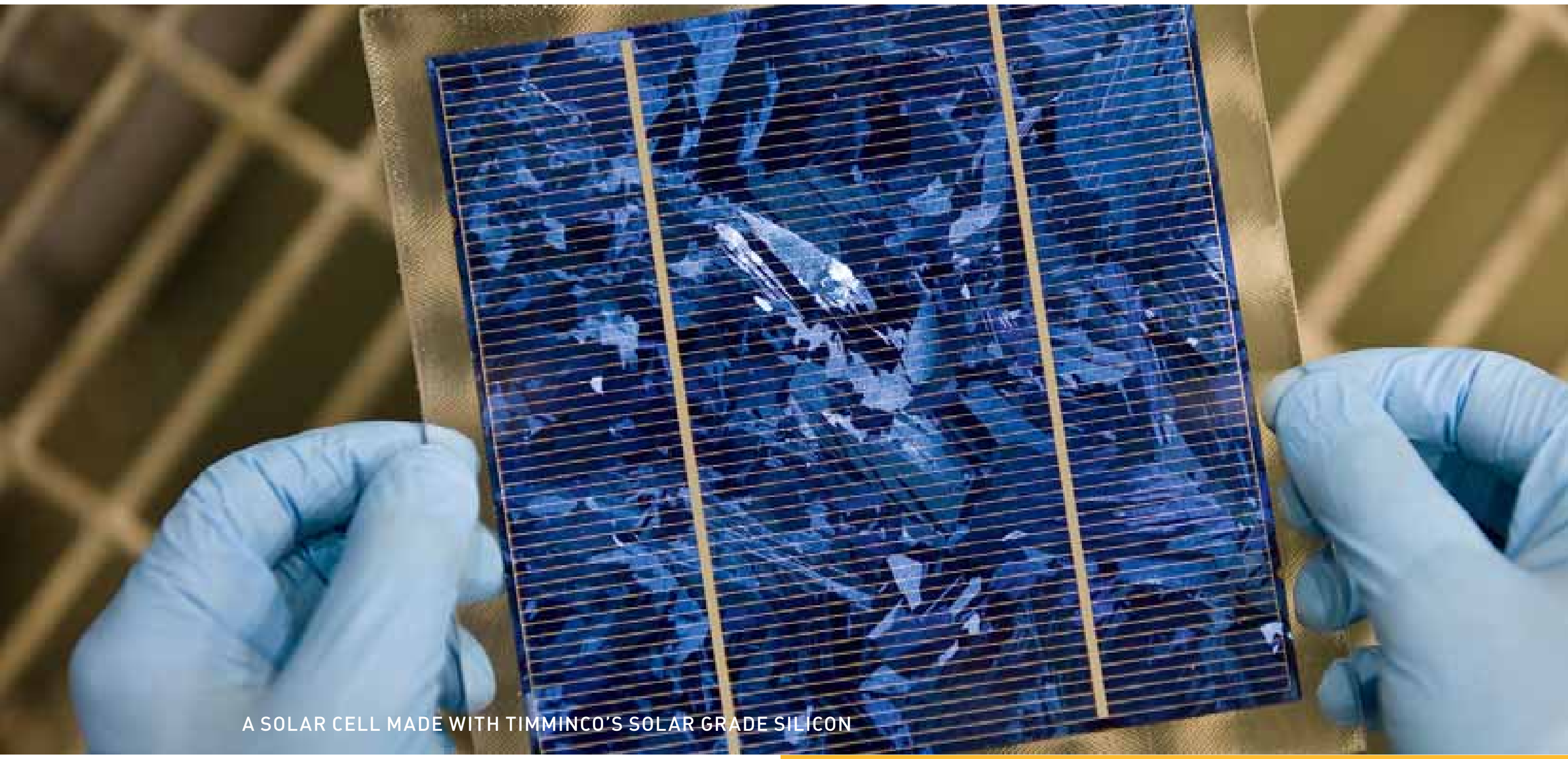
Timminco's customers have progressively improved the efficiency of solar cells produced with Timminco's solar raw material and a number of those customers have launched specific products using 100% Timminco UMSi as the base material of their solar cells.

The severe downturn of the solar products markets in the first quarter of 2009 has led to the decision to delay the ramp up of UMSi production lines to adjust production to the actual demand.

Silicon Metal

Timminco's operations in Bécancour produce approximately 50,000 mt annually for the aluminum, chemical and polysilicon (semiconductor and solar) markets. The Bécancour location gives the company an abundant supply of competitively priced hydroelectric power and a major transport link to Europe through the

2008 was a transformational year for Timminco as it assumed world leadership in the production of upgraded metallurgical silicon, a raw material for solar silicon ingots.



A SOLAR CELL MADE WITH TIMMINCO'S SOLAR GRADE SILICON

St. Lawrence Seaway. The markets for silicon metal have contracted in the first quarter of 2009 and Timminco will react with a temporary shutdown of its smelters.

Magnesium

The volatility of raw material prices and traditionally low margins has led to the magnesium business being a non-core activity. As part of its strategic plan, Timminco has begun winding down operations at its Aurora, Colorado extrusion facility, having previously ceased activities at its Haley, Ontario plant in June, 2008. In early 2009, Timminco entered into a joint venture pursuant to which it ceded control of the magnesium business and retained a minority interest.

Other Businesses

During 2008, Timminco also had a minority investment in Fundo Wheels, a Norwegian company manufacturing aluminum automobile wheels. Production difficulties and the recent sharp drop in automobile sales contributed to continuing losses and a reduction of the carrying value of this investment to zero on the company's balance sheet. Subsequent to year-end, Fundo Wheels ceased operations.

Key achievements

Generated $20.0 million of EBITDA in 2008 compared to a loss in 2007.

Completed installation of six purification lines for the production of UMSi, planned to be the largest facility of its kind upon completion

Shipped 1,045 mt of UMSi with deliveries primarily to customers on long-term supply contracts.

Outlook

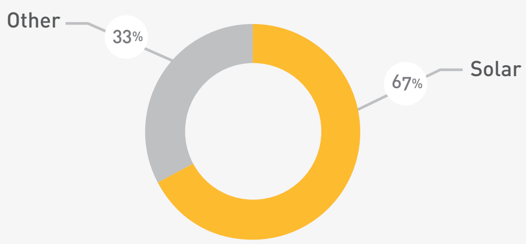
Timminco believes it will become a low-cost producer of solar silicon feedstock for the photovoltaic industry. Despite the economic crisis that has affected the demand for solar energy, Timminco will continue to work on improving product quality and lowering production costs to ensure a successful long-term future as conditions improve.

Graphit Kropfmühl AG

$87.9M
Revenue

$7.6M
EBITDA

Revenue by market 2008



GK's results are not included in AMG's financial statements for 2007 and include only eight months in 2008, reflecting the date that AMG's acquisition took place. GK had excellent results in 2008, generating $7.6 million of EBITDA on $87.9 million of revenue in the eight months. Like the results of AMG's Advanced Materials Division, demand for GK's products fell rapidly in the fourth quarter although EBITDA remained positive. GK's recent capital improvements will help reduce costs in 2009 but, nevertheless, current economic conditions present a challenge.

Metallurgical Silicon

AMG added to its silicon metal production capacity by acquiring control of GK. Together with Timminco's 50,000 mt capacity, GK's production of over 30,000 mt makes AMG one of the world's largest producers of silicon metal. Like Timminco, GK has a favorable geographic location – its plant in Pocking, Germany, is close to most of its customers.

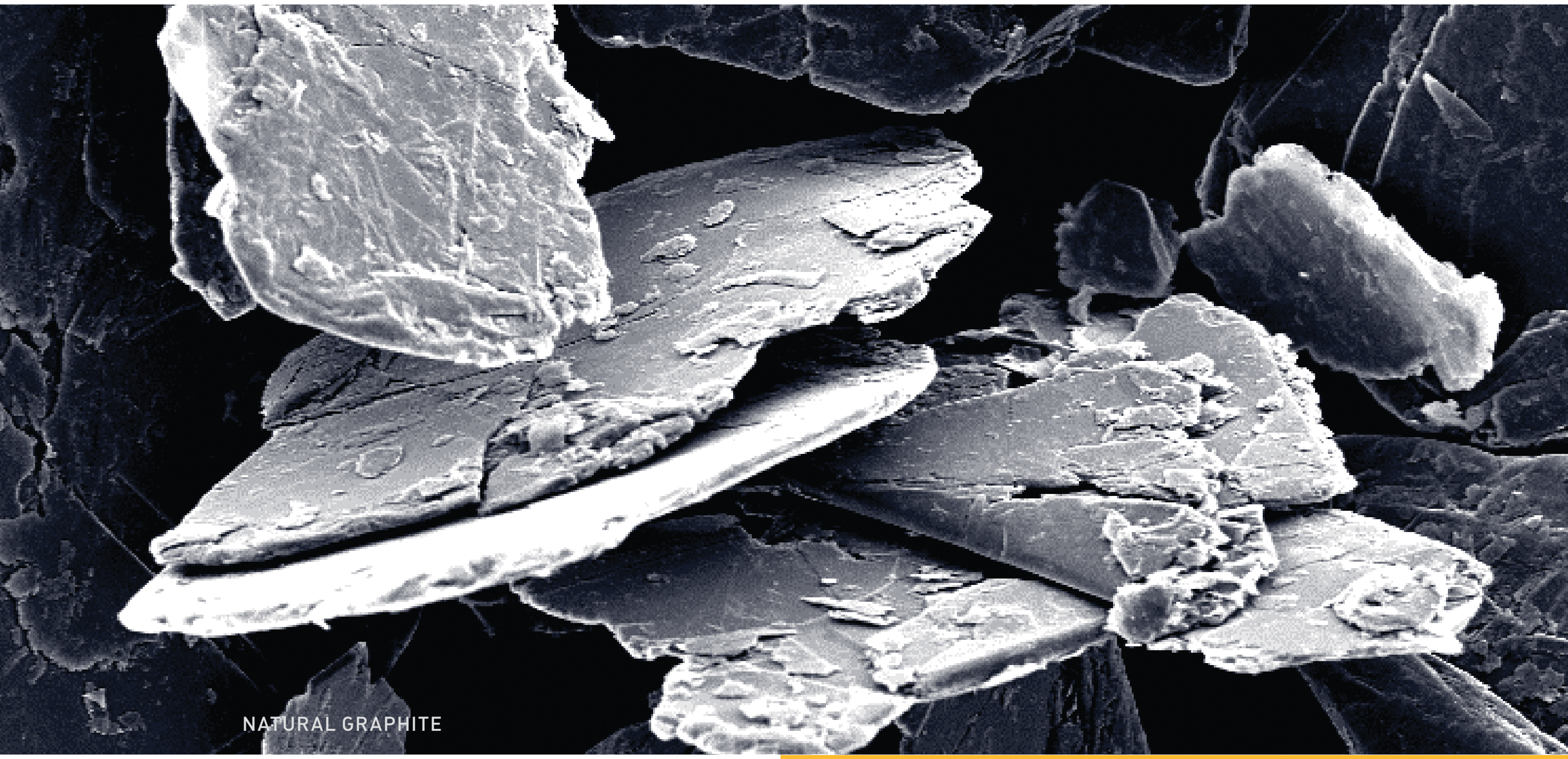
The silicon metal division's revenue for 2008 was $58.9 million for the eight month period. GK's products go to the solar market as well as the chemical and aluminum industries. GK is investing in a more efficient transformer and a closed electrode system which will enable GK to increase production by up to 10% while reducing energy consumption. GK is taking steps to insure a base level of profitability and liquidity even if prices of silicon metal decrease. GK's metallurgical silicon division also produces a by-product of amorphous silicon dioxide under the brand name RW-Füller.

Graphite

GK's graphite division refines natural graphite into high quality graphite with purities up to 99.99% carbon. GK has a worldwide production and sales network with mining, processing and application expertise. GK owns mines, processing plants and extraction rights in Asia and Africa with refining and processing plants in Germany, the Czech Republic and China.

The graphite business had revenue of $29.0 million in the eight month period. After a strong start in 2008, the graphite business was impacted by the worldwide economic slowdown during the fourth quarter.

AMG'S majority-owned subsidiary, Graphit Kropfmühl AG, is a producer of silicon metal and natural graphite.



NATURAL GRAPHITE

Natural graphite's heat resistance, electrical and heat conductivity and resistance to chemicals enable it to be used in state-of-the-art batteries, in refractories for the steel industry and as a component in lubricants.

GK's vertically integrated position in the graphite value chain, from mining to sales, has enabled it to develop high-purity graphite custom solutions. Several of these serve as heat insulation in building materials, making a significant contribution to the environment.

Due to the downturn in the transportation markets, GK transitioned its focus to industrial energy efficiency applications. GK constructed a new facility in Germany with an annual capacity of approximately 1,500 mt of fine-milled graphite and employing a new, energy-efficient processing technology. Operations began in the third quarter of 2008.

The business was affected by the steep rise of raw material prices for grades of graphite not produced by its mines. As a response to the increasing cost situation, in the third quarter of 2008 GK transferred production from its Great Britain facility to the lower cost Czech Republic plant.

Key achievements

AMG acquired 79.5% of GK's publicly-listed stock in 2008.

Attained revenue for 2008 of $87.9 million for the eight months GK was controlled by AMG.

EBITDA was $7.6 million for the eight months in 2008 that AMG controlled GK

Expanded silicon metal production capacity and built a high efficiency milling facility to reduce costs in graphite production.

Outlook

GK is expanding its production capacity of silicon metal by approximately 10% to 33,000 mt per annum. This expansion is expected to be complete by the end of the second quarter of 2009.

The graphite division expects to strengthen its network in 2009 through cooperation with AMG using mutual infrastructure and resources to take advantage of long term growth forecasts for natural graphite.

Risk Management and Internal Control

Risk Management Approach

The global economy is facing unprecedented challenging times. A typical risk management process identifies potential risks, monitors those risks and develops mitigation planning. Such a process works well when there is general stability and certainty in the underlying business and in macroeconomic conditions. Its utility, while still valuable, is limited in the environment in which we are operating.

The current economic crisis and global uncertainty is causing the simultaneous occurrence of several significant risks. AMG's Management Board has identified the following six risks as the most pertinent to the business: accounts receivable and customer default, or performance, risk; metals price volatility; foreign currency volatility; capacity utilization; temptation to abandon innovation; and financing risks. During these challenging times, extensive focus throughout AMG is being given to managing and avoiding these, as well as other, risks. More detailed explanations of these risks, as well as actions AMG has implemented to mitigate the risks, are provided below.

AMG's strong focus on risk management, and traditional risk assessment processes, had previously identified most of the risks above as potential risks – albeit not necessarily planning for the "perfect storm" of all the risks occurring simultaneously or to the current level of severity. This preparation, while not making AMG immune from the global crisis, has benefited AMG is two main ways: (i) AMG recognized the risks early and had plans in place to reduce the impact; and (ii) AMG was building its business model, specifically as it relates to metals price volatility, around the avoidance of this risk.

AMG employs a traditional approach to risk management including a 'top-down' and 'bottom-up' analysis and assessment of the Company's risks, together with a very strong focus on 'entrepreneurial risks'.

Traditional Risk Assessment

In 2008, AMG implemented a comprehensive strategic risk management program, centered on AMG's Risk Assessment Package ("RAP"). The RAP is a comprehensive document requiring each business unit to (i) identify potential risks and quantify the impact of such risks; (ii) prioritize the risks using a ranking system to determine the impact, likelihood of occurrence, and mitigation or avoidance procedures in place; (iii) identify adverse events that presage the actual occurrence of an identified risk; and (iv) document the periodic monitoring of the risks.

AMG is keenly aware that this thorough screening has its limitations. Customers, suppliers and competitors do not give you advance notice of their confidential plans and actions. Economic conditions can deteriorate. Governments can change policies and acts of nature can disrupt even the best executed strategies. Intimate knowledge of AMG's businesses and markets is critical in mitigating these risks. AMG is also developing scenario planning to be better prepared for adverse events.

Moving Beyond Best Practices

Information is an important element to managing risk. Improved visibility to information for all AMG management, whether market or company specific or operational or financial in nature, is the focus for moving AMG's traditional risk assessment beyond best practices. In 2009, AMG will begin a project to migrate its RAPs to a web-based platform. The on-line platform will (i) improve the design and ease of use of AMG's enterprise risk management tools allowing for more frequent updates; (ii) standardize risk categories and terms across all business units; and (iii) improve the ability to better connect monitoring risks into financial results and impact.

In addition to migrating the RAPs to a web-based platform, the database will enable data retrieval allowing mitigation plans, market data and other documents to be viewed remotely and shared across the Company. Improved information flow should, in addition to other benefits, allow more timely management decisions using more accurate data and allow the Company to build and execute more robust mitigation plans.

The last phase of the project will be to combine the features of the database with key performance indicators. The use of key performance indicators in the risk management process will enable business unit managers to better monitor risks and allow the Strategic Risk Management Officer to better set goals to challenge business unit managers.

Risk Reporting Procedure

Each business unit undertakes a full review of its RAP on a quarterly basis. The RAPs are then reviewed in detail by AMG's Strategic Risk Management Officer in coordination with the operating managers of the business units. Key risks from all business units are then summarized and presented to the Management Board on a quarterly basis. Individual risks of special note will be discussed at the Management Board's bi-weekly meeting.

The Supervisory Board receives a report from the Management Board at its quarterly meetings.

AMG's Strategic Risk Management Officer reports directly to the Chief Executive Officer to provide assurances that the risk management process is respected and that risk identification and management are carried out effectively.

The Management Board has the responsibility to inform the Supervisory Board of the most significant risk exposures and the related risk management plans in place. The Audit Committee of the Supervisory Board will carry out a semi-annual review of the company's internal control and risk management systems.

Entrepreneurial Risk Assessment

AMG focuses on developing and producing products to reflect growing global trends. Executing this strategy requires the development of new products, processes and businesses that utilize proprietary production methods and novel approaches.

In an economic crisis, the temptation is to delay new innovative initiatives until more market clarity exists. This response risks the viability of the company when the economic crisis ends.

AMG will continue to invest in innovation during these times as the continued growth of AMG's business requires the Management Board to undertake innovations.

Investments in innovation do come with risk, albeit measured risk. The most significant decisions surround the careful planning of investing in innovations versus cash conservation. Aiding in this decision is a two-phase risk analysis conducted before a decision is made to invest in a project. The first phase is a traditional, thorough analysis of the proposed project, including likelihood of success, to determine a projected internal rate of return ("IRR") or net present value using discounted cash flows. The second phase analyzes the risks AMG faces if it does not innovate or proceed with the proposed project. If there is a potential loss of business, and subsequent loss of cash flows, in a 'steady-state' scenario, this outcome is included in the IRR and net present value calculations to get a true picture of the benefit of the project.

In addition to looking at the inherent risk on a project-by-project basis, AMG also evaluates the risk of the 'portfolio' of projects being undertaken or in the pipeline. Evaluating a project within a portfolio of opportunities allows AMG to better manage its liquidity and capital allocation. This portfolio evaluation of projects is very important given current economic conditions. While certain projects may be beneficial and worthwhile in the long run, timing of cash flows is critically important as AMG always seeks to maintain sufficient liquidity to operate its existing businesses.

Managing entrepreneurial risk requires active management. Some of the biggest risks in new projects are unknown, since a company is doing something for the first time. On top of unknown risks, competitive dynamics can change and new technologies can become available forcing alternative plans to be implemented. Frequent Management Board meetings enable the senior executives of AMG to stay informed of all the latest information, allowing for quick action, further reducing risk.

Risks

Risks faced by AMG can broadly be categorized as:

- Strategic: includes risks related to marketing and sales strategy, product innovation, technology innovation, overall raw material sourcing decisions, capacity decisions and acquisitions
- Operational: includes risks related to executing the strategic direction, supply of raw materials, production, maintenance of production equipment, distribution of products, labor relations, human resources, IT infrastructure, health, safety and environmental, and sales and marketing
- Market and external: includes risks related to global and regional economic conditions, market supply/demand characteristics, metal prices, substitution, foreign exchange rates, customer and competitor actions and community relations
- Financial: includes risks related to accuracy and timeliness of financial reporting, compliance with IFRS accounting standards, compliance with AFM and Euronext Amsterdam requirements, currency fluctuations, budgeting, metal price and currency hedging, treasury and tax functions
- Regulatory: includes risks related to the political, environmental and legislative environment

Current global economic conditions also have a significant influence on AMG's financial performance. Specifically, many of AMG's products are used in the energy, infrastructure and transportation industries. Slowdown in demand from those industries will reduce AMG's financial performance. AMG's business is global in nature. Regional diversification may help mitigate localized economic slowdowns.

Current global economic uncertainty also negatively influences AMG's financial performance. Uncertainty increases the difficulty of near-term and long-term planning, specifically as it relates to planning production levels, securing raw materials, entering into sales contracts, investing in capital expenditures, staffing levels and financing needs.

AMG, like most industrial companies, faces a combination of risks. It is not the intention to provide details on each risk posed to AMG in this report. The six risks most pertinent to the business are described in detail below.

Customer Risk

AMG is exposed to an increasing risk of customers defaulting on accounts receivable or not performing on their contracts. The current economic crisis compounds this risk as once sound companies may fail quickly because of existing leverage or lack of financing options. This risk is most profound in the Advanced Materials Division, at Timminco and at GK where reduced global demand may lead to customers not honoring contract commitments by not purchasing contracted volumes of material or not paying contracted prices. To mitigate this risk, AMG has insured some of its accounts receivable and has set credit limits on its customers, which it closely monitors.

The Engineering Systems Division collects prepayments from most of its customers. As a result of the prepayments for vacuum furnaces systems, the Engineering Systems Division mitigates a portion of a customer's payment and performance risk.

Metal Price Volatility Risk

AMG is exposed to risk in the prices of certain metals. Risk can arise from changes in price between purchase, process and sale of the metals to end-price risk for metals when raw materials are purchased under fixed price contracts.

Most metals AMG processes and sells, such as chromium metal, tantalum, graphite, ferrotitanium and antimony trioxide cannot be hedged on an exchange. To mitigate price risk for these metals, AMG seeks to enter into complementary raw material supply agreements and sales agreements whereby the price is determined by the same index. AMG also attempts to time its raw material purchases with sales orders from customers.

Further mitigation comes from establishing low-cost long positions in key raw materials through ownership positions in mining activities (tantalum, niobium, graphite, quartz), through structured long-term supply contracts (in ferrovanadium and ferronickel-molybdenum), or long-term fixed price sales contracts (Timminco's UMSi). Despite this mitigation, AMG retains some exposure to price volatility, most significantly in vanadium.

Success of the mitigation plans is dependent on the severity of metal price volatility and counterparties performing under their contracts.

The Company hedges exchange-traded metals, such as aluminum, when possible. In its aluminum business, AMG also sells conversion services with no metal price risk.

Currency Risk

AMG's largest currency risk exists where it incurs more costs in one currency than it generates revenues in that currency. The single largest sensitivity of this nature exists for the Euro. Risk also exists with the British Pound and Brazilian Real. At Timminco, risk exists with the Canadian Dollar. AMG may enter into currency hedges to mitigate this risk.

AMG also faces currency risk when it enters into a fixed price contract to sell a product – a vacuum furnace for example – in one currency while the costs incurred are in another and the currency might vary between the time a price is fixed with a customer and when that transaction is closed. AMG typically enters into currency hedges to mitigate this risk.

Capacity Utilization Risk

Reduced capacity utilization results in fewer economies of scale and higher per unit costs. If AMG is not able to pass on its increased costs, financial results will be negatively impacted.

Business Strategy and Innovation Risk

The continued growth of AMG's business requires the development of new products and new production processes. Developing and investing in these new products and production processes involves risks. The most significant risk at this moment is the balance between the appropriate levels of investment in innovation to secure future growth versus the need to preserve cash to withstand the economic crisis.

Additionally, AMG continues to face risks in the scale-up of new production facilities/methods and in new technologies or products. In particular, AMG faces risk in the scale-up of its solar silicon business at its Timminco facility.

Financing Risk

The current economic crisis has severely restricted AMG's ability to access the capital markets – debt or equity. A prolonged restriction on accessing the capital markets and additional financing may negatively affect AMG's ability to fund future innovations and capital projects. At December 31, 2008, AMG had very low leverage levels (net debt 0.5x 2008 EBITDA), liquidity in excess of $245 million and a bank facility that does not mature until August 2012.

In addition to the most pertinent risks described above, other risks faced by AMG include the following.

Supply Risk

AMG's Advanced Materials Division is dependent on supplies of metals and metal containing raw materials for the production of its products. Some of these raw materials are available from only a few sources or a few countries. In order to mitigate the risk of supplies becoming difficult to source, AMG enters into longer-term contracts with its suppliers when practical.

AMG's Engineering Systems Division is dependent on a limited number of suppliers for many of the components of its vacuum furnace systems as a result of its stringent quality requirements. To mitigate this risk, the Engineering Systems Division has insourced the production of its DSS furnaces for the solar industry.

Personnel Risk

AMG's workforce is highly educated and highly skilled, which contributes greatly to AMG's success. High employee turnover or loss to a competitor of key personnel, who take with them know-how, is a risk to AMG. Many incentives, financial and other, are used to maintain a motivated workforce.

Regulatory Risk

Like all companies, AMG is exposed to the changing regulatory environment in the countries and regions where it conducts business. The most notable changes are coming in the form of environmental policy.

New environmental regulations or a change in regulatory bodies that have jurisdiction over AMG products and facilities could result in new restrictions, including those relating to the storage or disposal of legacy material at AMG owned properties, which may result in significantly higher costs to AMG (see Note 37 to the Consolidated Financial Statements).

The environmental regulations that are responsible for the growth in AMG's business, however, may present operational challenges to AMG's manufacturing processes. More stringent regulations may be enacted for the release of air emissions, wastewater discharge or solid waste, which may negatively impact AMG's operations. Additionally, the REACH Directive became effective in the European Union in June 2007. REACH requires new operational procedures regarding the registration, evaluation and authorization of chemical substances.

Risk Monitoring and Procedures

AMG has a strategic risk function that monitors and establishes internal controls to mitigate business and financial risks. AMG's strategic risk function is complemented by its internal audit function. As a newer public company, the controls and procedures at AMG may not be as developed as other public companies with much longer operating histories. Through the risk reporting system, the Strategic Risk Management Officer works with business unit managers to develop risk mitigation strategies, where applicable. The purpose of the risk reporting and monitoring system is to manage rather than eliminate the risk of failure to achieve business objectives, and provides only reasonable, not absolute, assurance against material misstatement or loss.

Statement on Internal Control Pursuant to the Dutch Corporate Governance Code

Risks related to financial reporting include timeliness, accuracy and implementation of appropriate internal controls to avoid material misstatements.

During 2008 the Management Board conducted an evaluation of the structure and operation of the internal risk management and control systems. The Management Board discussed the outcome of such assessment with the Supervisory Board (in accordance with best practice provision III.I.8).

AMG's Management Board believes internal risk management and control systems in place provide a reasonable level of assurance that AMG's financial reporting does not include material misstatements. In relation to AMG's financial reporting, these systems operated effectively during 2008 and there are no indications that, in relation to AMG's financial reporting, these systems will not operate effectively in 2009.

Management Board of Directors' Statement of Responsibilities

The members of the Management Board state that to the best of their knowledge:

1. The annual financial statements, as shown on pages 75 to 152 of this report, provide a true and fair view of the assets, liabilities, financial position and results for the 2008 financial year of AMG Advanced Metallurgical Group N.V. and its subsidiaries, included in the consolidated statements.
2. The annual report, as shown on pages 2 to 74 of this report, provides a true and fair view of the state of affairs as at the balance sheet date and the course of events during the 2008 financial year of AMG Advanced Metallurgical Group N.V. and its subsidiaries, details of which are contained in the financial statements. Furthermore, the annual report provides information on any material risks to which AMG Advanced Metallurgical Group N.V. is exposed.

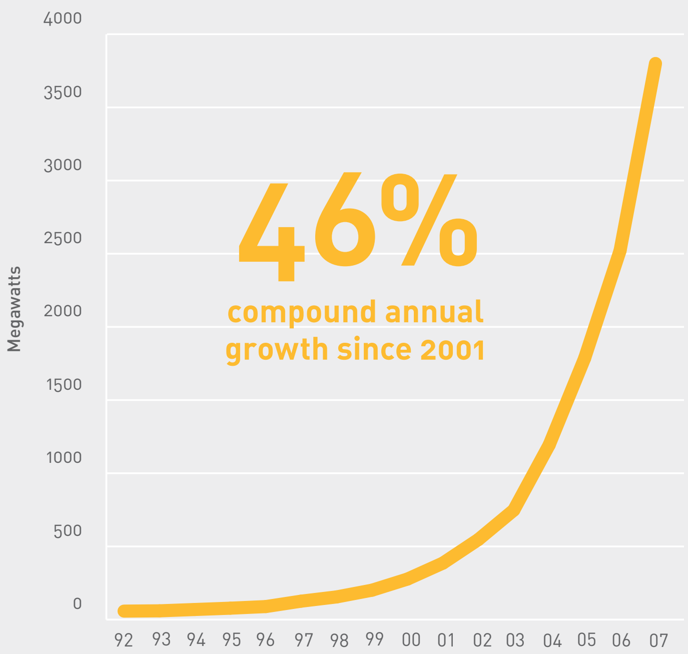
Management Board
AMG Advanced Metallurgical Group N.V.

Heinz Schimmelbusch
Arthur Spector
William Levy
Eric Jackson
Reinhard Walter

March 30, 2009

Solar

Photovoltaic production has nearly doubled every two years, increasing at a compound annual growth rate of 46% since 2001.



Source: Compiled by Earth Policy Institute from Worldwatch Institute, Vital Signs 2005 (Washington, DC: 2005); Worldwatch Institute, Vital Signs 2007-2008 (Washington DC: 2008); Prometheus Institute, "23rd Annual Data Collection - Final," PVNews, vol. 26, no. 4 (April 2007), pp. 8-9; REN21, Renewables 2007 Global Status Report: A Pre-Publication Summary for the UNFCCC COP13 (Paris: December 2007).

AMG remains committed to the future of solar energy despite the dramatic drop in prices and demand which began in 2008.

Countries continue to be troubled by a lack of energy security, the soaring price of energy in recent years, the decline in easily accessible fossil fuel sources, pollution and a concern that climate change may be approaching catastrophic proportions. With these concerns in mind, AMG took major steps in 2008 to increase its presence in the solar industry:

- The Engineering Systems Division expanded its solar furnace manufacturing facilities and made significant investments to reduce dependence on outsourcing.
- Timminco continued the expansion of its facilities to produce upgraded metallurgical solar silicon (UMSi).
- AMG acquired majority control of Graphit Kropfmühl AG, a supplier of silicon metal to the solar industry.
- The Advanced Materials Division expanded its thin film coatings business.

Solar energy is a primary focus of all AMG's business divisions. The value chain to the right shows how AMG works across these divisions to take advantage of market opportunities.

The energy in sunlight striking the earth for 40 minutes is equivalent to global energy consumption for an entire year. Photovoltaic production has grown at a compound annual rate of 46% since 2001 and installed capacity reached 10.6 GW at the end of 2007.

Crystalline Silicon Value Chain

Silicon Metal → Solar Grade Silicon → Ingots → Wafers → Cells Modules Systems

Silicon Metal

Silicon metal is the essential ingredient for both polysilicon and UMSi.

Timminco: Timminco produces 50,000 mt of silicon metal annually, which is available for the production of UMSi.

GK: GK produces 30,000 mt of silicon metal annually which is available for the production of polysilicon.

Solar Grade Silicon

Both polysilicon and UMSi have the necessary quality and characteristics to be used in solar applications.

Timminco: Timminco's proprietary purification process enables the direct production of UMSi from silicon metal feedstock. Timminco is expanding its UMSi facility to increase its nominal annual production capacity. By the end of 2008, Timminco had commissioned six new production lines.

Engineering Systems Division: The Division designs and manufactures DSS furnaces for the production of large area silicon ingots for high efficiency solar cells.

Ingots

UMSi or polysilicon is processed in a specially designed vacuum furnace into ingots, cut into bricks, which are then sliced into wafers.

Timminco: Timminco has recently installed ingot-ing capabilities for quality control and research and development purposes in its UMSi operations.

Engineering Systems Division: This Division is a world leading producer of these furnaces. Order intake for these furnaces increased from $194.3 million in 2007 to $292.8 million in 2008, resulting in a total furnance backlog of over $332 million at year-end.

Wafers

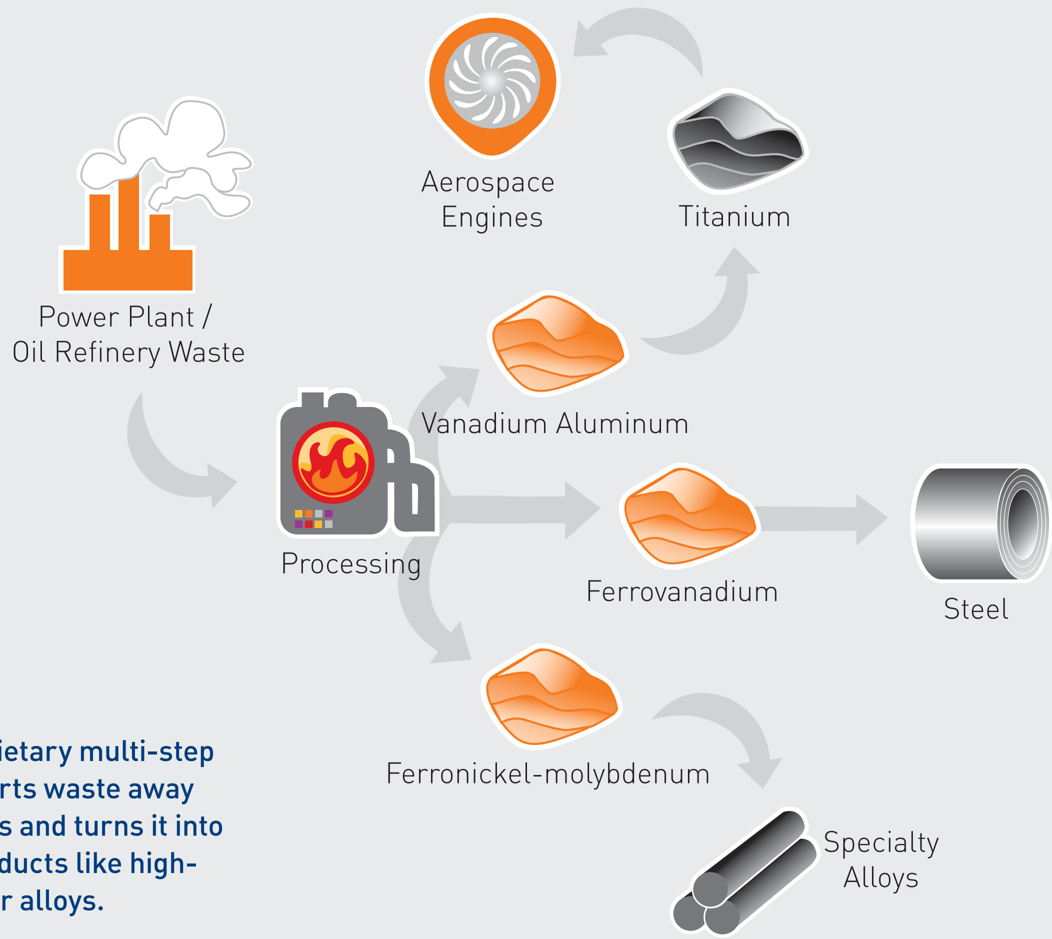
The high-purity silicon is cut into very thin discs or wafers which are the basis for the production of solar cells.

Cells/Modules/Systems

Wafers undergo a variety of processes to enable them to convert sunlight into electric power and in so doing become solar cells. These solar cells are linked together in modules and these modules are combined and linked to system components which are installed to generate solar energy.

Advanced Materials Division: This Division produces proprietary coating materials and processes to increase the efficiency of thin film photovoltaic cells.

Recycling



AMG's proprietary multi-step process diverts waste away from landfills and turns it into valuable products like high-purity master alloys.

Recycling waste streams is an important focus of the Advanced Materials Division. Reducing environmental pollution while increasing profitability is the result of AMG's recycling initiatives.

Ore-based ferrovanadium production	Ore	Slag	Vanadium Pentoxide		Ferrovanadium
AMG recycling-based ferrovanadium production	Power Plant/ Oil Refinery Residues & Waste	Melting	Refining	Casting	Ferrovanadium

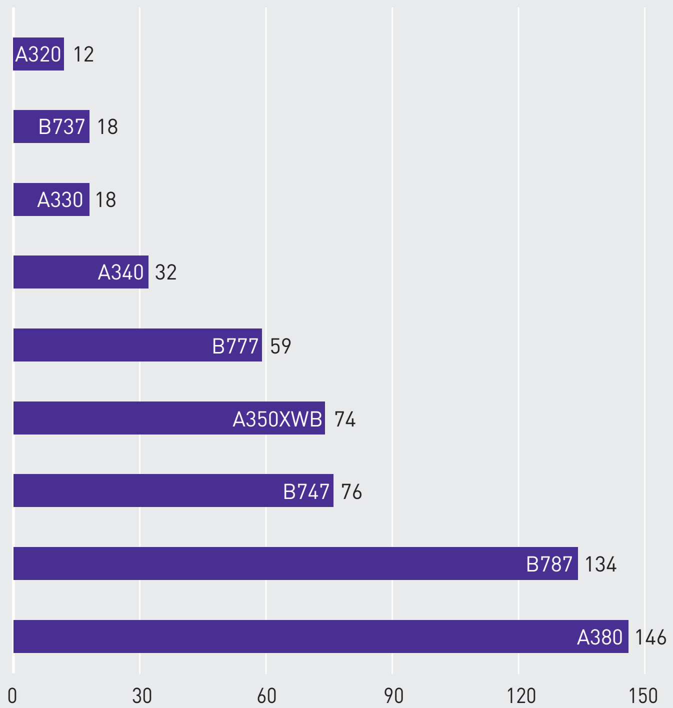
AMG's most significant recycling activities are in the United States (recycling spent catalysts and power plant residues) and in Brazil (reprocessing tantalite tailings for the ceramics industry). Less obvious has been AMG's recycling operation in Germany which uses power plant waste streams to produce master alloys for titanium used in aerospace applications.

A fundamental tenant of AMG's business is to develop proprietary, technologically advanced processes to recover valuable metals from secondary, by-product and waste materials. AMG uses one of these processes at the Advanced Materials Division facility in Nuremberg, Germany to recover vanadium and nickel from the hazardous wastes produced by power plants and oil refineries throughout Europe. Thousands of tons of hazardous landfill waste are eliminated as these residues and fly ashes are instead treated by AMG's proprietary multi-step process to recover vanadium and nickel.

In addition to this process of turning waste into profitable products, other environmental benefits from these operations include the reduced need for mining nickel and vanadium-containing ores and the lower energy required to obtain the metal oxides by this route. Further processing of vanadium oxides in AMG's aluminothermic reduction furnaces produces master alloys of such high quality that they are used as additives to titanium for the production of aerospace turbine engines. This plant is one of a very small number of suppliers certified to produce master alloys meeting the highest quality standards required for aerospace applications.

Fuel Efficiency

Aerospace manufacturers seek to expand titanium usage in planes to reduce weight, thereby improving fuel efficiency and reducing CO_2 emissions.



Estimated titanium required to manufacture each plane (MT)

Liquid hydrocarbons remain the most common form of fuel for aerospace. These fossil fuels are major sources of carbon dioxide emissions. Major technological breakthroughs regarding low emission fuels are not on the horizon and reductions of CO_2 emissions are best achieved by reducing fuel consumption, which is mainly driven by reducing weight and increasing the efficiency of engines.

AMG plays an important role in the production of light weight materials used to reduce fuel consumption. AMG's Engineering Systems Division is one of the largest designers and producers of vacuum melting and remelting furnaces for titanium worldwide. AMG's vacuum furnaces are used to purify and refine the structure of high-purity superalloys and titanium alloys. These high-purity materials are essential for applications in the aerospace industry.

Major technological breakthroughs regarding low emission fuels are not on the horizon and reductions of CO_2 emissions are best achieved by reducing fuel consumption, which is mainly driven by reducing weight and increasing the efficiency of engines.

Titanium Value Chain

Ilmenite or Rutile Ore → **Titanium Sponge** → **Melting & Alloying** → **Forging** → **Rolling & Machining** → **Components for Aerospace Industry**

The Advanced Materials Division manufactures master alloys which dramatically improve the mechanical, corrosion and heat resistance properties of titanium alloys and titanium aluminides used in the aerospace industry.

AMG's specialty alloys are key components in the development of the most advanced and fuel efficient aerospace engines. These specialty materials enable the engines to run at higher speeds and temperatures, thus increasing fuel efficiency. These alloys are also used to improve the quality and performance of aerospace-grade titanium, expanding the number of applications in which airframe producers can utilize the lightweight material. The use of new composites and titanium products has enabled Boeing's 787 Dreamliner and Airbus' A380 to achieve significant improvements in fuel efficiency above existing commercial aircraft. For example, Boeing's 787, with titanium comprising 15% of its total weight compared to 4% for Boeing's 737, is estimated to reduce fuel consumption by 20% over predecessor jets of similar size. This equates to an estimated reduction of one to two million tons of CO_2 emissions annually.

These strong and lightweight materials are used not only in the general structure of an aircraft's body but also in the engines, landing gears, hydraulic systems and galleys. Long-term increases in aircraft build rates will lead to continued growth of the titanium industry—and AMG will actively participate in that growth.

In addition to aerospace applications, AMG is also active in developing metals-based materials to improve wear resistance, reduce heat loss and improve operating efficiencies of existing technologies. Over 62%[1] of a fuel's energy is lost in the internal combustion engine, due to friction and energy loss. AMG's advanced coatings development center in Germany is developing and producing DLC—diamond-like carbon-based wear-resistant coatings that dramatically reduce engine friction, thus increasing engine performance and improving fuel economy.

[1] United States Department of Energy – Consumer Energy Center www.fueleconomy.gov

The value chains below show AMG's current involvement in solid lines; future areas of development are identified with dotted lines.

Nuclear

High Temperature Reactor Technology

- Mining, Processing & Enrichment of Uranium
- TRISO Fuel Production
- Mining & Processing of Graphite
- Graphite Material Production
- Energy Generation (HTR)
- Irradiated Graphite Processing
- Spent Fuel Processing

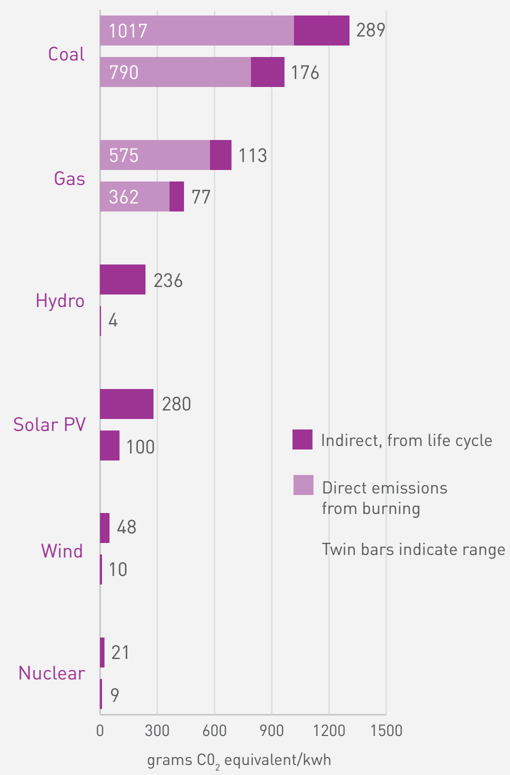
Significant growth potential[1]:

43 plants under construction

108 plants on order

266 proposed new plants

Greenhouse gas emissions from electricity production[2]



The energy content of one gram of uranium is equivalent to approximately three metric tons of coal. There are now 436 commercial nuclear power reactors in the world with 372 GW of total capacity. Nuclear energy provides about 15% of the world's electricity.

Light Water Reactor Technology

- Mining, Processing & Enrichment of Uranium
- UO_2 Fuel Production
- MOX Fuel Production
- Energy Generation (LWR)
- Spent Fuel Reprocessing
- Low-Level Waste Processing
- High-Level Waste Processing

While AMG currently derives most of its revenues from solar energy, fuel efficiency and recycling strategies, great potential for future revenue growth lies in the nuclear energy industry. Although conflicting policies around the world make the timing for the rapid growth of nuclear energy unclear, a resurgence is taking place. At the end of January 2009, 436 nuclear power plants were operating globally. More significant are the 43 plants under construction, the 108 on order and the 266 proposed.[1]

AMG believes nuclear energy will play an important role in the medium term to address greenhouse gas emissions. With reactor lifetime emissions of 5 to 25 g CO_2 equivalent per kilowatt hour, nuclear energy has a similar emission profile to solar and at least an order of magnitude less than fossil fuel electricity generation. However, challenges remain for the industry including capital costs, fuel supply costs and waste disposal.

AMG is in the forefront of new nuclear technologies applicable to both high temperature and light water reactors and believes it can develop more current revenue streams while holding its position for the future. An example of this strategy is found in the graphite expertise at GK and the Engineering Systems Division. AMG develops process technology and equipment for the production of graphite blocks used in graphite moderated reactors. The future of these technologies lies in applications for using graphite to condition radioactive waste for final disposal.[1]

AMG currently derives revenues from designing, engineering and the sale of spare parts for sintering furnace systems for fuel pellets made of uranium oxide and mixed oxide. Based in part on this technology, AMG's FNAG subsidiary was awarded a significant contract from Shaw Areva MOX Services for engineering sintering furnaces for producing mixed oxide nuclear fuels from weapons-grade plutonium.

[1] World Nuclear Association, March 2009 [2] IAEA 2000, World Nuclear Association

Report of the Supervisory Board

Pedro Pablo Kuczynski
Chairman
70

Wesley Clark
64

Jack L. Messman
69

Norbert Quinkert
66

Guy de Selliers
56

Male/US and Peru
Date of birth: October 3, 1938
Date of initial appointment: June 6, 2007
Date of end of term: 2011

Economist and Investment Banker
Partner, The Rohatyn Group
Current board positions, Agualimpia NGO (Chairman), The Taiwan Greater China Fund (Chairman), Ternium Inc.
Former positions: Prime Minister of Peru and First Boston International (Credit Suisse) (Chairman)

Male/US
Date of birth: December 23, 1944
Date of initial appointment: June 6, 2007
Date of end of term: 2009

Consultant and Advisor, Wesley K. Clark & Associates
Current board positions, Argyle Inc., Bankers Petroleum Ltd., Prysmian S.R.L., NutraCea, Inc., Rodman and Renshaw LLC, Juhl Wind, Inc.
Former position: NATO Supreme Allied Commander, Europe

Male/US
Date of birth: March 13, 1940
Date of initial appointment: June 6, 2007
Date of end of term: 2009

Corporate Director
Current board positions, Celerant Consulting, Radio Shack Corporation,
Safeguard Scientifics, Inc., Telogis, Inc. (Chairman), Timminco Limited
Former positions: Chief Executive Officer, Novell, Inc. and Union Pacific Resources Corporation

Male/Germany
Date of birth: January 18, 1943
Date of initial appointment: June 6, 2007
Date of end of term: 2010

Consultant
Quinkert Herbold Fischer Executive Search GmbH
Current board positions, PFW Aerospace GmbH, VTION AG (Vice Chairman), WISTA Management GmbH (Chairman)
Former position: Motorola (Germany, Austria, Switzerland and The Netherlands) (Chairman)

Male/Belgium
Date of birth: June 14, 1952
Date of initial appointment: June 6, 2007
Date of end of term: 2010

Corporate Director
Chairman, Hatch Corporate Finance
Current board positions, Solvay SA, Wimm-Bill-Dann Foods OJSC, Wessex Grain
Former position: Robert Fleming and Co. Limited, Eastern Europe (Chairman)

Powers of the Supervisory Board

The Supervisory Board oversees both the policies pursued by the Management Board and the general course of AMG's business. It also provides advice to the Management Board. In performing its duties, the Supervisory Board is required to act in the interests of the AMG Group and their businesses as a whole. It has assigned certain of its tasks to three committees: the Audit Committee, the Selection and Appointment Committee and the Remuneration Committee each of which reports on a regular basis to the Supervisory Board. The separate reports of each of these Committees are published below.

The Supervisory Board further supervises the systems and management of the internal business controls and financial reporting processes and it determines the remuneration of the individual members of the Management Board within the remuneration policy adopted by the General Meeting of Shareholders.

Composition of the Supervisory Board

The Supervisory Board was first established on June 6, 2007 and consists of six members. Messrs. Pedro Pablo Kuczynski (Chairman), Jack Messman (Vice Chairman), Guy de Selliers, Norbert Quinkert, General Wesley Clark and Dr. Andrei Bougrov were appointed to the Supervisory Board on that date by the General Meeting. Dr. Bougrov has resigned from the Supervisory Board as of August 1, 2008. The Supervisory Board will propose to the 2009 General Meeting of Shareholders to appoint Dr. Martin Hoyos (Austrian, age 61, former chief executive of KPMG Europe, Middle East and Africa) as member of the Supervisory Board as of May 13, 2009.

The Supervisory Board aims for an appropriate level of experience in technological, manufacturing, economic and financial aspects of international business and public administration. The composition of the Supervisory Board must be such that the combined experience, expertise and independence of its members enables the Supervisory Board to carry out its duties.

There are currently no Supervisory Board members who qualify as 'non-independent' as defined in best practice provision III.2.2 of the Dutch Corporate Governance Code. Accordingly, AMG is in compliance with best practice provision III.2.1.

The Resignation Schedule of the Supervisory Board is:

Pedro Pablo Kuczynski	2011
Wesley Clark	2009
Jack Messman	2009
Norbert Quinkert	2010
Guy de Selliers	2010

Mr. Messman and General Clark will resign by rotation from the Supervisory Board at the Annual General Meeting of Shareholders on May 13, 2009. Both Mr. Messman and General Clark are eligible for immediate reappointment for a period of four years. The Supervisory Board proposes the reappointment of Mr. Messman and General Clark. A nomination for their appointment will be submitted to the 2009 Annual General Meeting of Shareholders.

Supervisory Board Meetings

The Supervisory Board held six meetings in the course of 2008 including meetings by telephone conference. Almost all meetings were attended by all members. None of the members of the Supervisory Board was frequently absent from Supervisory Board meetings. The items discussed in the meetings included recurring subjects, such as AMG's financial position and results, strategy, potential acquisitions, business plans, capital expenditure programs, operations review as well as regular review of the strategic initiatives of the Company. Financial metrics presented to the Supervisory Board to measure the performance of AMG include net income, earnings per share, EBITDA, financial leverage (net debt to EBITDA), debt to equity, return on shareholders' equity and return on capital employed. Furthermore, the Supervisory Board discussed the risks of AMG's business and the assessment by the Management Board of the structure of the internal risk management and control systems, as well as any significant changes thereto. The regularly scheduled Supervisory

Board meetings also included presentations by senior managers of the business lines to give Supervisory Board members a more in-depth understanding of the businesses. In addition to the scheduled meetings, the Chairman and other members of the Supervisory Board had regular contacts with the Chief Executive Officer and other members of the Management Board as well as senior executives of the Company throughout the year.

On November 12, 2008 the Supervisory Board (without the presence of the Management Board) met and reviewed the performance of the Supervisory Board and its members and the performance of the Management Board and its members.

Remuneration

The members of the Supervisory Board receive remuneration in the form of a cash component and a share component. No loans, guarantees or the like have been granted to any of the Supervisory Board members.

Cash remuneration: The cash remuneration of the Supervisory Board members is determined by the General Meeting of Shareholders. Pursuant to such determination on June 26, 2007, the annual cash remuneration for members of the Supervisory Board was set at $75,000 for the Chairman and $50,000 for the other members. Chairmen of the Remuneration Committee, the Audit Committee and the Selection and Appointment Committee are paid an additional $ 12,500 annually. No changes with regard to the cash compensation structure were made during 2008.

A proposal to increase the Supervisory Board remuneration for the year 2009 will be submitted at the 2009 Annual General Meeting of Shareholders for approval.

Share remuneration: The members of the Supervisory Board do not participate in any of AMG's incentive plans. As part of their annual remuneration, on June 26, 2007, the General Meeting of Shareholders determined to issue a number of shares for no cash consideration to each member of the Supervisory Board. No changes with respect to this policy have been made during 2008.

The number of shares issued to each member is computed with respect to a specified amount of Euros for each member. During 2008 the specified numbers of Euros were €22,500 for the Chairman, €18,500 for the Vice Chairman and €15,000 for each other member.

Shares issued may not be disposed of by the member of the Supervisory Board until the earlier of the third anniversary of the grant or the first anniversary of the date on which he ceases to be a member of the Supervisory Board.

The Dutch Corporate Governance Code requires that the remuneration of a Supervisory Board Member not be dependent on the results of the Company. Best practice provision III.7.1 states that a Supervisory Board member may not be granted any shares and/or rights to shares by way of remuneration. AMG does not comply with best practice provision III.7.1 for the reason that its Supervisory Board remuneration largely reflects US market practice, recognizing that the majority of the Supervisory Board members has a US corporate background and that a substantial part of AMG's operational headquarters is located in the US. Best practice provision III.7.2 states that any shares held by a Supervisory Board member in the company on whose board he sits are long-term investments. AMG does not comply with this best practice provision. AMG requires that the Supervisory Board not transfer or otherwise dispose of shares in AMG's share capital only until the earlier of the third anniversary of the grant or the first anniversary of the date on which such member ceases to be a member of the Supervisory Board for those shares which are granted as part of the annual remuneration.

The table below shows the total remuneration of each member of the Supervisory Board for 2008. One member of the Supervisory Board, Dr. Andrei Bougrov, resigned mid-year and received pro-rata compensation. No share awards were granted to Dr. Bougrov.

For the year ended December 31, 2008	Role	Cash remuneration	Share remuneration	# of shares granted
Pedro Pablo Kuczynski	Chairman and Member of the Remuneration Committee	$ 75,000	€ 22,500	433
Jack L. Messman	Vice Chairman & Remuneration Committee Chair	$ 62,500	€ 18,500	356
Wesley Clark	Member	$ 50,000	€ 15,000	289
Norbert Quinkert	Member & Selection and Appointment Committee Chair	$ 62,500	€ 15,000	289
Guy de Selliers	Member & Audit Committee Chair	$ 62,500	€ 15,000	289
Andrei Bougrov	Member	$ 25,000	–	–

During 2008 Mr. Messman received remuneration from AMG's subsidiary Timminco for his work for that company as director. This remuneration amounted to $ 70,357 for 2008.

Shares Held by Members of the Supervisory Board

As of December 31, 2008, the members of the Supervisory Board held 5,238 shares awarded to them during 2007 and 2008 as part of their annual remuneration. Four members of the Supervisory Board held an additional 28,400 shares, of which 19,750 had been purchased in the initial public offering and 8,650 had been purchased during 2008. In addition, Mr. Messman owns 158,600 shares of Timminco and has options to acquire an additional 75,000 shares of Timminco.

Committees

The Supervisory Board has three standing committees, the Audit Committee, the Remuneration Committee and the Selection and Appointment Committee.

Audit Committee

Composition: Messrs. de Selliers (Chairman) and Messman.

The Audit Committee is responsible for, among other things, considering matters relating to financial controls and reporting, internal and external audits, the scope and results of audits and the independence and objectivity of auditors as well as the Company's process for monitoring compliance with laws and regulations and its Code of Business Conduct. It does monitor and review the Company's audit function and, with the involvement of the independent auditor, will focus on compliance with applicable legal and regulatory requirements and accounting standards. The Audit Committee met four times during the year in addition to its meetings to review and approve interim financial reports of the Company. Topics of discussion at the meetings included IT infrastructure, the Internal Audit plan, correspondence with the Autoriteit Financiële Markten ("AFM"), the Audit Committee Charter, an enterprise risk management system, insurance, foreign currency exposure and hedging policies, tax structuring and spending approval matrixes. Ernst & Young Accountants LLP also provided the audit committee with a mid-year review of the Company's accounting policies and procedures.

The Audit Committee further reviewed the proposed audit scope and fees for the external auditors of the Company and after assessment of the performance of the external auditors, it advised the Supervisory Board to propose to the General Meeting of Shareholders to re-appoint Ernst & Young Accountants LLP for another one (1) year term.

Present at all meetings of the Audit Committee were the Chief Financial Officer, the Corporate Controller and AMG's auditors Ernst & Young Accountants LLP. At certain meetings the Company's General Counsel and Internal Audit Director were present.

Selection and Appointment Committee

Composition: Mr. Quinkert (Chairman) and General Clark

The Selection and Appointment Committee is responsible for (i) preparing the selection criteria, appointment procedures and leading searches for candidate Management Board and Supervisory Board members; (ii) periodically evaluating the scope and composition of the

Management Board and the Supervisory Board; (iii) periodically evaluating the functioning of individual members of the Management Board and the Supervisory Board; and (iv) supervising the policy of the Supervisory Board in relation to the selection and appointment criteria for senior management of the Company.

The Selection and Appointment Committee met two times during the year. An important topic concerned the vacancy in the Supervisory Board due to the resignation of Dr. Bougrov during the year. After discussions and meetings with the candidate-elect, the Committee advised the Supervisory Board to propose to the General Meeting of Shareholders in May 2009 the appointment of Dr. Martin Hoyos as a new member of the Supervisory Board. Dr. Hoyos was born in Vienna, Austria in 1947 and holds a PhD in economics and is qualified as a certified public accountant. He was appointed a partner of KPMG Austria in 1982 and a partner of KPMG Germany in 1992. From 2000 to 2002 he was CEO of KPMG Europe, Middle East and Africa and thereafter an executive member of the Board of KPMG Germany until his retirement in 2007. Dr. Hoyos currently holds three non-executive Board positions at KPMG Germany, Prinzhorn Holding GmbH and CAG Holding GmbH.

Remuneration Committee

Composition: Messrs. Messman (Chairman), Kuczynski and Dr. Bougrov (until August 1, 2008)

The Remuneration Committee is responsible for establishing and reviewing material aspects of the Company's policy on compensation of members of the Management Board and preparing decisions for the Supervisory Board in relation thereto. This responsibility includes, but is not limited to, the preparation of: (i) a remuneration policy to be adopted by the General Meeting of Shareholders; and (ii) a proposal concerning the individual remuneration of the members of the Management Board to be determined by the Supervisory Board.

The Remuneration Committee met three times during the year. Topics of discussion at the meetings included (i) development of a revised remuneration policy including policies with respect to the compensation of the Management Board; (ii) review and adjustment of the base salary for members of the Management Board prior to adoption of the new remuneration policy; (iii) annual bonuses for members of the Management Board; and (iv) review and adjustment of the cash-based compensation for members of the Supervisory Board as of 2009. In performing its duties and responsibilities the Remuneration Committee was assisted by external remuneration experts.

Remuneration Report

The year 2008 was a transitional year with respect to AMG's remuneration policy. During this year, the Remuneration Committee developed a new remuneration policy for the Management Board. The new remuneration policy was approved by the Supervisory Board and will be proposed to the shareholders for adoption at the Annual General Meeting to be held on May 13, 2009. The Remuneration Committee calls particular attention to the reduction of the Base Salaries of members of the Management Board for 2009 as further explained under "Management Board Remuneration for 2009" below.

This remuneration report contains the following three sections:

- Remuneration of the Management Board for 2008
- Proposed Remuneration Policy for 2009
- Remuneration of the Management Board for 2009

The approved version of the remuneration policy and this remuneration report will be published on AMG's website under the Corporate Governance section.

Remuneration of the Management Board for 2008

The remuneration of AMG's Management Board for 2008 was based on the remuneration policy approved by the Supervisory Board and adopted by the shareholders at a General Meeting in 2007. This remuneration policy stated that the Remuneration Committee would honor existing contractual agreements and develop an appropriate remuneration policy during a transition period. The year 2008 was the last year of this transition period and the remuneration of the members of the Management Board for 2008 was based on the transitional remuneration policy. A general overview of this transitional remuneration policy and the remuneration of the Management Board for 2008 is provided below.

General Overview of Remuneration Policy for Transition Period

The transitional remuneration policy provided that the amount and structure of the Management Board's remuneration should enable qualified and expert managers to be recruited and retained in an international labor market. The transitional policy took into account for each Management Board member aspects such as sound industry practice, individual country pay practices and job market and geographic differences. In addition, the transitional remuneration policy for the Management Board was designed to strengthen the commitment of the Management Board members to AMG and its objectives.

During the transition period the remuneration package of the Management Board members consisted of three components:

- Base Salary
- Annual Bonus – cash bonus based on individual performance against predetermined criteria, with a range from 0% to 100% of Base Salary
- Long-term incentive – stock options with a vesting scheme of 25% per year starting one year after the grant date. The maximum number of shares subject to the stock options granted to the Management Board could not exceed 10% of the issued share capital at the time of grant.

The terms of employment contracts between AMG and the members of the Management Board were to be between two and four years, unless existing contractual agreements contained different terms. Severance payments were to be limited to between two and four years' Base Salary, unless existing contractual agreements contained different terms or specific circumstances dictated otherwise.

The transitional remuneration policy and its remuneration packages did not fully comply with the existing Dutch Corporate Governance Code (dated December 9, 2003). The new remuneration policy for the Management Board, as explained below, will be in compliance with the revised Dutch Corporate Governance Code, unless exceptional circumstances apply, in which case an explanation will be provided.

Management Board Remuneration for 2008

For 2008 the costs incurred with respect to the Management Board's remuneration were the following:

For the year ended December 31, 2008	Base Salary	Annual Bonus	Option Compensation	Present value of Option Compensation[1]	Retirement benefits & pensions	Other remuneration
Dr. Heinz Schimmelbusch	$ 1,118,250	$ 1,118,250	$ 2,039,659	$ 398,131	$ 1,270,379	$ 55,953
Arthur Spector	$ 994,600	$ 845,410	$ 1,793,932	$ 345,810	$ 1,399,463	$ 0
Eric Jackson	$ 647,300	$ 485,475	$ 891,911	$ 170,727	$ 159,396	$ 40,117
Dr. Reinhard Walter	$ 699,675	$ 524,756	$ 891,911	$ 170,727	$ 51,520	$ 27,922
William J. Levy	$ 507,300	$ 380,475	$ 881,800	$ 166,452	$ 29,500	$ 29,524

[1] Present value based upon value of AMG stock at December 31, 2008.

The remuneration contracts of the Management Board members were with more than one company now comprising AMG. The remuneration levels in the table above show the aggregate amounts of the contracts per Management Board member, except for Dr. Schimmelbusch and Mr. Spector. Dr. Schimmelbusch and Mr. Spector also received remuneration from AMG's subsidiary Timminco for their work for that company as Chief Executive Officer & Chairman of the Board and Vice Chairman of the Board of Directors respectively. Dr. Schimmelbusch received for his work as Chief Executive Officer & Chairman of Timminco during 2008 total compensation of $893,450, Mr. Spector received for his work as

Vice Chairman of the Board of Directors total compensation of $ 62,930. In addition, Dr. Schimmelbusch received compensation of $35,057 as Chairman of the Supervisory Board of AMG's subsidiary Graphit Kropfmühl AG. A detailed explanation of the remuneration paid in 2008 is provided in Note 38 to the Consolidated Financial Statements.

Base Salary

The Base Salaries of the Management Board members were, consistent with 2007, determined by their existing remuneration contracts.

Annual Bonus

In this transitional year, the Annual Bonuses were determined on a discretionary basis by the Supervisory Board. Each Management Board member was given a target for 2008 expressed as a percentage of Base Salary. The target percentages ranged from 75% of Base Salary for the Management Board members to 100% of Base Salary for the CEO. Based on the assessment and performance of AMG in 2008, as well as individual performance, the Supervisory Board determined that the Management Board members should receive their target bonus levels.

The table below shows the target and paid out Annual Bonus as a percentage of Base Salary per Management Board member.

For the year ended December 31, 2008	Target (as a % of Base Salary)	Payout (as a % of Base Salary)
Dr. Heinz Schimmelbusch	100%	100%
Arthur Spector	85%	85%
Eric Jackson	75%	75%
Dr. Reinhard Walter	75%	75%
William J. Levy	75%	75%

Long-term incentives

Each member of the Management Board participates in the AMG Option Plan introduced in 2007. For the transitional period no performance criteria were used for the granting or vesting of options. The new remuneration policy for the Management Board, to be introduced in 2009, will include performance criteria with respect to the AMG Option Plan.

The table below provides an overview of the options granted under the AMG Option Plan during 2007 and 2008. All options granted are unconditional and have a vesting scheme of 25% per year starting one year after the grant date.

AMG Option Plan			Non-vested options under the plan				Vested options granted in 2008		
all currency amounts in Euros For the year ended December 31, 2008	Year	Date of grant	# of options	Present value at date of grant[1]	Exercise price at date of grant	Vesting scheme	# of options	Value at vesting date	Share price at vesting date
Dr. Heinz	2007	11.7.2007	225,000	2,025,000	24.00	25% per year	56,250	1,447,313	49,73
Schimmelbusch	2008	12.11.2008	133,333	846,665	12.70	25% per year	n/a	n/a	n/a
Arthur Spector	2007	11.7.2007	200,000	1,800,000	24.00	25% per year	50,000	1,286,500	49,73
	2008	12.11.2008	93,333	592,665	12.70	25% per year	n/a	n/a	n/a
Eric Jackson	2007	11.7.2007	100,000	900,000	24.00	25% per year	25,000	643,250	49,73
	2008	12.11.2008	40,000	254,000	12.70	25% per year	n/a	n/a	n/a
Dr. Reinhard Walter	2007	11.7.2007	100,000	900,000	24.00	25% per year	25,000	643,250	49,73
	2008	12.11.2008	40,000	254,000	12.70	25% per year	n/a	n/a	n/a
William J. Levy	2007	11.7.2007	100,000	900,000	24.00	25% per year	25,000	643,250	49,73
	2008	12.11.2008	26,667	169,336	12.70	25% per year	n/a	n/a	n/a

[1] Present value of the stock options under the AMG Option Plan is calculated as 50% of the exercise price at the date of grant.

Pensions and retirement benefits

The members of the Management Board, except for Dr. Walter, are members of the defined contribution plan at AMG's subsidiary, Metallurg. Dr. Walter is provided pension benefits in accordance with the defined contribution plan at AMG's German subsidiary, ALD Vacuum Technologies GmbH.

Dr. Schimmelbusch, Mr. Spector and Mr. Jackson receive additional retirement benefits from Metallurg's Supplemental Executive Retirement Plan ("SERP"). With respect to Dr. Schimmelbusch and Mr. Spector, the supplemental benefits are payable commencing at the later of age 70 or the end of their employment with AMG. The benefit to be paid will be reduced by the amounts received under their normal retirement benefit under the Metallurg pension plan. During 2007, Dr. Schimmelbusch and Mr. Spector voluntarily reduced the amount of their supplemental retirement benefit and extended the vesting period for such benefit. The benefit was one-third vested as of April 1, 2007. The unvested portion is vested ratably over 24 months commencing April 1, 2007 and ending March 31, 2009. See Note 26 to the Consolidated Financial Statements.

Pursuant to Mr. Jackson's SERP, if Mr. Jackson is employed by Metallurg or remains in Metallurg's employment until he is 65, he is entitled, whether or not he has terminated his employment, to receive retirement benefits (reduced by amounts received under Metallurg's pension plan). Mr. Jackson's benefits will be reduced if his employment with Metallurg ends prior to his reaching age 65.

Total costs to AMG with respect to the pension and retirement benefits of the Management Board is provided in the table above which sets forth total costs incurred in 2008 for Management Board remuneration.

Other benefits

All Management Board members receive benefits, which are in line with industry and individual country practice. No loans and guarantees are granted to any Management Board members.

Total costs to the Company with respect to other remuneration of the Management Board is provided in the table above which sets forth total costs incurred in 2008 for Management Board remuneration.

Contracts

Each member of the Management Board has a contract of employment with AMG. The contract of Dr. Schimmelbusch provides for a term of four years. For the other Management Board members the contract provides for a term of three years. In case AMG terminates the contract of employment without cause, the maximum severance payment is limited to two years Base Salary and two years of target Annual Bonus. Current agreements with respect to severance payments do not comply with best practice provision II.2.7 of the existing Dutch Corporate Governance Code (dated December 9, 2003). AMG has honored existing contractual agreements and adapts to individual country practices, which differ from best practice provision II.2.7 of the existing Dutch Corporate Governance Code.

In addition to the employment contracts with AMG, the members of the Management Board have a contract with one of AMG's subsidiaries. Details of the employment contracts of the Management Board members are provided on the Company's website under the Corporate Governance section.

Proposed Remuneration Policy Commencing 2009

During 2008, the Supervisory Board, supported by Hay Group, has developed a new remuneration policy for the Management Board, which supports the overall executive compensation philosophy of the Company. By developing a new remuneration policy the Supervisory board has committed itself to the highest standards of international good corporate governance practices. Unless the Company's interests require otherwise, the proposed remuneration policy complies with all applicable best practice provisions of the Dutch Corporate Governance Code. The Supervisory Board believes to have sound explanations for those best practice provisions it cannot comply with.

Executive Remuneration Philosophy

The AMG group of companies competes throughout the world for business and for talent. Given its size and the diversity of its business it must compete for superior talent with corporations of considerable scale.

AMG's offerings, therefore, must provide top talent with roles which are challenging and motivating in a fast paced environment and offer very competitive reward opportunities for top talent and superior performance. Accordingly, the Executive Remuneration Philosophy must:

- help secure the human capital that will achieve AMG's short-term, medium-term and long-term objectives
- reward superior performance
- engender an innovative fast paced entrepreneurial environment
- provide a clear linkage between executive and shareholder interests
- support the business model and, in particular, a collaborative culture

Remuneration Components

As of 2009, the Management Board members' remuneration shall consist of the following components:

- Base Salary
- Annual Bonus
- Long-term Incentives
- Pension and other benefits

Remuneration components must support the Executive Remuneration Philosophy. AMG uses a competitive total direct compensation strategy that will help secure top talent. Total direct compensation of the Management Board consists of Base Salary, Annual Bonus and Long-term Incentives. To reward superior performance, the basic principle of the policy is to position AMG at the top quintile of Hay Group's Industrial Market database for outstanding performance. The Hay Group Industrial Market database comprises accurate and up-to-date executive remuneration information of more than 300 US organizations operating in the manufacturing sector. The US market was chosen for the reason that the majority of the Management Board members have US residency and the operational headquarters of AMG is located in the US.

Base Salary

Base Salary levels are part of the overall remuneration package and fit into the overall remuneration strategy to position the total direct compensation level at the top quintile of the Hay Group Industrial Market database.

Annual Bonus

Members of the Management Board participate in AMG's short-term incentive plan. The short-term incentive plan provides for an annual cash bonus which depends on three key performance metrics:

- Return on Capital Employed (ROCE)
- (Adjusted) Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)
- Individual performance

The table below provides an overview of these key performance metrics including the relative importance in determining the Annual Bonus.

Key performance metrics	ROCE	EBITDA Growth	Individual Performance
Description	EBIT / Capital Employed (%) in established target ranges	EBITDA growth % in established target ranges	Leadership and human capital development
Weighting	40%	40%	20%

The Annual Bonus opportunity is expressed as a percentage of Base Salary at threshold, target and maximum levels as indicated in the table below. Below threshold levels, the payout will be zero; the maximum payout will be three times target payout.

Management Board position	Minimum payout	Target payout	Maximum payout
Chairman and Chief Executive Officer	0%	85%	255%
Deputy Chairman	0%	75%	225%
Divisional head	0%	65%	195%
Chief Financial Officer	0%	65%	195%

Each year the Supervisory Board determines ambitious yet realistic target ranges for each performance metric with respect to the threshold, target and maximum payout. If, in the opinion of the Supervisory Board, an awarded Annual Bonus has produced an unfair result due to incorrect financial data or special circumstances in the year in which the performance criteria should have been achieved or have been achieved, the value can be adjusted.

Long-term incentives

The long-term incentive framework is in line with sound market practice and supports the overall Executive Remuneration Philosophy. It is comprised of two programs: a Performance Share Unit Plan and a Stock Option Plan. The initial value of those two programs will be equal.

The Performance Share Unit Plan provides for a number of Performance Share Units ("PSU") conditionally awarded to the members of the Management Board on an annual basis. The PSUs are tied to the value of ordinary shares and are credited in notional accounts for each member of the Management Board – one PSU is equal to one ordinary AMG share. Fractional PSUs are added to the notional accounts to recognize any dividend payout before vesting. The PSUs vest three years after the grant date, subject to challenging performance criteria.

Depending on the performance achieved, the actual number of PSUs may vary upward and downward compared to the initial grant. At vesting, the PSU payouts are redeemed and settled in cash, based on the average fair market value of the underlying share on the last 10 trading days' closing prices prior to the vesting date.

Vesting of the PSUs is subject to two performance criteria:

- A threshold level of three year average Return on Capital Employed (ROCE)
- Relative Total Shareholder Return (TSR) against a relevant external market

With respect to the relative TSR, the Bloomberg World Metal Fabricate/Hardware Index will be used. This global index is a capitalization-weighted index of the leading metal fabricate/hardware shares in the world, including approximately 50 metal and mining companies.

At the end of the performance cycle (i.e. three years after the grant date) the actual number of PSUs may be higher or lower than the initial grant. The payout multiplier is based on AMG's TSR ranking against the Bloomberg World Metal Fabricate/Hardware Index as indicated in the table below. In case the threshold ROCE level is not reached the payout will be zero, irrespective of the TSR ranking.

AMG TSR Ranking	Percentile Ranking	Payout Multiplier
Top Band	80% – 100%	175% x # of initial PSUs
Higher Band	60% – 79%	125% x # of initial PSUs
Middle Band	40% – 59%	100% x # of initial PSUs
Lower Band	30% – 39%	25% x # of initial PSUs
Bottom Band	Below 30%	0% x # of initial PSUs

The Stock Option Plan ("SOP") provides for an annual conditional grant of stock options to each member of the Management Board. The stock options granted under the SOP have a maximum term of ten years from the grant date. Vesting is subject to performance criteria: a threshold level of three year average Return on Capital Employed must be achieved for stock options under the SOP to vest. Half of the granted stock options can vest after the third anniversary year and the other half after the fourth anniversary year. The exercise price of the stock options under the SOP equals the fair market value of the underlying share (i.e. closing price) at the grant date. Neither the exercise price nor any other of the conditions mentioned above shall be modified during the term of the options, except insofar as prompted by structural changes relating to the shares or AMG in accordance with market practice.

If, in the opinion of the Supervisory Board, conditionally awarded PSUs and/or stock options have produced unfair results due to incorrect financial data or special circumstances in the year in which the performance criteria should have been achieved or have been achieved, the award can be adjusted.

Pension and other benefits

Each member of the Management Board will be offered pension and other benefits (i.e. company car and insurances) which are in line with market and individual country practice, taking into account the employment history of the Management Board member. No personal loans or guarantees shall be granted to the members of the Management Board.

Contracts

Each newly appointed member of the Management Board will have a contract of employment with AMG. The contracts provide for a maximum term of four years with severance of one year's Base Salary. If the maximum of one year's Base Salary would be considered unreasonable for a Management Board member who is dismissed during the first term of office, the Supervisory Board can decide to increase the severance payment to a maximum of two years Base Salary.

With respect to Management Board members who are promoted from within and have a long service history with AMG or one of its predecessor companies, the maximum severance payment shall be two years' Base Salary. With respect to the current Management Board members, all current agreements will be honored and maintained in future contracts.

The main elements of the contracts of employment of the Management Board members will be published under the Corporate Governance section of the Company's website.

Management Board Remuneration for 2009

In line with the proposed Remuneration Policy for the Annual General Meeting of shareholders on May 13, 2009, the Remuneration Committee has set up the size and structure of the Management Board's remuneration for 2009. The Remuneration Committee has analyzed the possible outcomes of the different remuneration components and how these may affect the remuneration of Management Board members.

In light of the current economic crisis, the Remuneration Committee has determined to deviate from the proposed Remuneration Policy for 2009 with respect to Base Salary.

Base Salary

The Remuneration Committee, on the initiative of the Management Board, has recommended that the cash portion of the Base Salary levels of the members of the Management Board for 2009 be temporarily reduced in 2009 by fifty percent (50%) commencing May 1, and replaced by stock options.

The table below shows the Base Salaries for 2008 and 2009:

Base Salary	2008	2009
Dr. Heinz Schimmelbusch	$ 1,118,250	$ 745,500
Arthur Spector	$ 994,600	$ 663,067
Eric Jackson	$ 647,300	$ 431,533
Dr. Reinhard Walter	$ 699,675	$ 466,450
William J. Levy	$ 507,300	$ 338,200

Annual Bonus

The Annual Bonus for 2009 will be determined as follows:

- 40% from ROCE (excluding construction in progress)
- 40% from adjusted EBITDA growth
- 20% from Individual Performance – discretionary by the Supervisory Board

The table below shows the Annual Bonus for each member of the Management Board as a percentage of Base Salary in case threshold, target and maximum performance levels are reached. Below threshold level the payout will be 0%.

Management Board position	Minimum payout	Target payout	Maximum payout
Chairman and Chief Executive Officer	0%	85%	255%
Deputy Chairman	0%	75%	225%
Divisional head	0%	65%	195%
Chief Financial Officer	0%	65%	195%

Long-term incentives

In line with the proposed Remuneration Policy for 2009, the long-term incentives for the Management Board for 2009 consist of two programs: the Performance Share Unit Plan and the Stock Option Plan.

To facilitate a smooth transition from the old remuneration policy to the new remuneration policy, the Performance Share Unit Plan has a phasing-in schedule as indicated below.

PSU initial grant	2009	2010	2011	2012	2013	2014
Grant #1 Phase-in	Grant 1	1/3 vest	1/3 vest	1/3 vest		
Grant #2 Phase-in		Grant 2	No vest	1/3 vest	2/3 vest	
Grant #3 Normal cliff			Grant 3	No vest	No vest	3/3 vest

This year's grant (2009) will be the first grant under the new plan and vesting will apply by 1/3 a year starting at the first anniversary date. Vesting of the Performance Share Units under the first grant is subject to:

- A minimum average ROCE over the performance period
- The relative Total Shareholder Return compared to the Bloomberg World Fabricate/ Hardware Index (according to the scheme on page 52).

With regard to the vesting of the PSUs, the following performance scheme applies:

Key performance metrics	2009	2010	2011	2012
AMG ROCE	Grant 1	Minimum level over period year 0 – year 1	Minimum average level over period year 0 – year 2	Minimum average level over period year 0 – year 3
AMG TSR Ranking	Grant 1	TSR Ranking year 0 – year 1	TSR Ranking year 0 – year 2	TSR Ranking year 0 – year 3

The present value of the PSUs to be granted in 2009 is €500,000 for Dr. Schimmelbusch, €350,000 for Mr. Spector, €150,000 for Mr. Jackson and Dr. Walter and €100,000 for Mr. Levy. The present value of the PSUs is calculated as 80% of the fair market value at the grant date.

With regard to the Stock Option Plan, each member of the Management Board will be granted stock options in 2009. Vesting of the stock options is subject to a minimum three year average ROCE requirement. The stock options will vest half after the third anniversary and half after the fourth anniversary. The present value of the stock options under the SOP to be granted in 2009 is €500,000 for Dr. Schimmelbusch, €350,000 for Mr. Spector, €150,000 for Mr. Jackson and Dr. Walter and €100,000 for Mr. Levy. The present value of the stock options under the SOP is calculated as 50% of the fair market value of the shares at the grant date. The number of stock options to be granted to members of the Management Board in the year 2009 shall not exceed the number of shares authorized by the General Meeting of Shareholders for issue by the Management Board, upon approval of the Supervisory Board, for 2009.

In addition, for 2009, each member of the Management Board will receive an additional grant of stock options representing the decrease in the amount of the cash portion of the Base Salary for 2009. The terms of such stock options and a proposal to reserve shares for issuance in connection with such stock options will be presented to the 2009 General Meeting of Shareholders for approval.

Pension and other benefits

The pension and other benefits of the members of the Management Board will not change compared to 2008.

Contracts

The current contractual agreements will not change compared to 2008. Main elements of the contract of the Management Board are published under the Corporate Governance section of the Company's website.

Shares Held by Members of the Management Board

As of December 31, 2008, Dr. Schimmelbusch and Dr. Walter directly held, respectively, 14,150 and 6,000 of AMG's shares. Dr. Schimmelbusch and Mr. Spector each hold derivative rights in the shares of AMG owned by Safeguard International and derivative rights in the convertible notes of Timminco owned by ALD International LLC. As of December 31, 2008, Safeguard International owned 7,142,662 shares of AMG, and ALD International LLC owned notes in AMG's subsidiary, Timminco, convertible into 18,823,286 shares of Timminco. Through Safeguard's and ALD LLC's ownership positions, Dr. Schimmelbusch and Mr. Spector derivatively own in the aggregate approximately 517,740 shares in AMG and notes convertible into approximately 1,365,890 shares of Timminco. In addition, Dr. Schimmelbusch owns 211,000 shares of Timminco and has options to acquire an additional 1,300,000 shares of Timminco. Mr. Spector has options to acquire 930,000 shares of Timminco.

Appreciation for the Management Board and the Employees of AMG

The Supervisory Board would like to thank the Management Board for its extraordinary efforts in leading the Company through its first full year of operation after its initial public offering and listing on Euronext Amsterdam in 2007. The economic and financial circumstances have changed dramatically during the second half of the year 2008, and yet, the Management Board did an excellent job of keeping the Company focused on its operations as evidenced by the strong financial results. The Supervisory Board would also like to thank all the employees of AMG Group for their daily commitment to AMG.

Annual Report 2008

The Annual Report and the 2008 Annual Accounts, audited by Ernst & Young Accountants LLP, have been presented to the Supervisory Board.

The 2008 Annual Accounts and the report of the external auditor with respect to the audit of the annual accounts were discussed with the Audit Committee in the presence of the Management Board and the external auditor. The Supervisory Board endorses the Annual Report and recommends that the General Meeting of Shareholders adopts the 2008 Annual Accounts.

Supervisory Board
AMG Advanced Metallurgical Group N.V.

Pedro Pablo Kuczynski, Chairman
Wesley Clark
Jack Messman, Vice Chairman
Norbert Quinkert
Guy de Selliers

March 30, 2009

Corporate Governance

General

AMG Advanced Metallurgical Group N.V. is a company organized under Dutch law ("AMG" or the "Company") and is the parent company of the AMG Group. The Company was established in 2006 as the holding company for the AMG Group companies and its shares were first listed on the Euronext Stock Exchange in Amsterdam in July 2007.

In this report the Company, as a Dutch listed company, sets forth its overall corporate governance structure and the extent to which it applies the provisions of the Dutch Corporate Governance Code of December 9, 2003 ("Dutch Corporate Governance Code"). The Supervisory Board and the Management Board, which are responsible for the corporate governance structure of the Company, hold the view that the vast majority of principles set forth in the Dutch Corporate Governance Code as applicable during 2008 (i.e. the Dutch Corporate Governance Code as issued on December 9, 2003) is being applied, while certain deviations are discussed and explained hereafter.

Further to the revised Dutch Corporate Governance Code as issued on December 10, 2008 (also referred to as the *Code Frijns*), which will be applicable to annual reports regarding financial years starting on or after January 1, 2009, the Company will include in its 2009 annual report, a special chapter on its corporate governance structure and its compliance with the revised Dutch Corporate Governance Code as issued on December 10, 2008, for discussion by the Annual General Meeting of Shareholders of 2010.

Annual Accounts and Dividend

The Management Board and the Supervisory Board have approved AMG's audited financial statements for 2008. These financial statements can be found on pages 75 – 152 of the Annual Report. Ernst & Young Accountants LLP audited the financial statements. Their report appears on page 152.

The audited financial statements will be submitted for adoption to the General Meeting of Shareholders.

AMG's dividend policy is to retain future earnings to finance the growth and development of its business. As a result, the Management Board does not anticipate that AMG will pay any dividends for the foreseeable future. The dividend policy will, however, be reviewed from time to time. Payment of future dividends to shareholders will be at the discretion of the Management Board subject to the approval of the Supervisory Board after taking into account various factors, including business prospects, cash requirements, financial performance, new product development, expansion plans, the terms of the Company's financing facilities and the compliance with applicable statutory and regulatory requirements. Additionally, payment of future dividends or other distributions to shareholders may be made only if the Company's shareholders' equity exceeds the sum of the issued share capital plus the reserves required to be maintained by law.

Shares and Shareholders' Rights

As of December 31, 2008, the issued share capital of AMG amounts to €537,111.72, consisting of 26,855,586 shares of €0.02 each. Each share carries one vote. The shares are listed on Euronext Amsterdam.

The shares are freely transferable.

Pursuant to the Financial Markets Supervision Act *(Wet op het financieel toezicht)* and the Decree on Disclosure of Major Holdings and Capital Interests in Securities-Issuing Institutions *(Besluit melding zeggenschap en kapitaalbelang in uitgevende instellingen)*, the Authority Financial Markets has been notified about the following substantial shareholdings regarding AMG:

As of February 28, 2009	
Safeguard International Fund LP	26.6%
Capital Research and Management Company	9.95%

All shares carry equal rights.

There are no restrictions on voting rights. Shareholders who hold shares on a predetermined record date are entitled to attend and vote at the General Meeting of Shareholders regardless of a sale of shares after such date.

As far as known to AMG there is no agreement involving a shareholder of AMG that could lead to a restriction of the transferability of shares or of voting rights on shares, except as detailed below:

Each of the current members of the Supervisory Board has undertaken to AMG not to transfer or otherwise dispose of any shares granted as part of their annual remuneration until the earlier of the third anniversary of the date of grant and the first anniversary of the date on which he ceases to be a member of the Supervisory Board.

Management Board

The executive management of AMG is entrusted to its Management Board which is chaired by the Chief Executive Officer. The Articles of Association provide that the number of members of the Management Board shall be determined by the Supervisory Board. The members of the Management Board are appointed by the General Meeting of Shareholders for a maximum term of four years and may be reappointed for additional terms not exceeding four years. The General Meeting of Shareholders appoints from a nomination of at least the number of persons prescribed by Dutch law (currently two) made by the Supervisory Board. The nomination is binding, meaning that the General Meeting of Shareholders may only appoint one of the nominated persons, unless the General Meeting of Shareholders rejects the nomination by an absolute majority (more than 50% of the votes cast) representing at least one-third of the issued share capital. If the Supervisory Board has not made a nomination, the appointment of the members of the Management Board is at the full discretion of the General Meeting of Shareholders. The General Meeting of Shareholders and the Supervisory Board may suspend a member of the Management Board at any time.

A resolution of the General Meeting of Shareholders to suspend or dismiss a member of the Management Board requires an absolute majority (more than 50% of the votes cast), representing at least one-third of the issued share capital, unless the Supervisory Board has proposed the suspension or dismissal to the General Meeting of Shareholders, in which case an absolute majority is required but without any quorum requirement.

The Management Board follows its own Rules of Procedure concerning the procedures for meetings, resolutions and similar matters. These Rules of Procedure are published on the Company's website.

The Company has rules to avoid conflicts of interest between the Company and members of the Management Board. The Articles of Association and the Rules of Procedure state that in the event of a legal act or a lawsuit between the Company and any of the members of the Management Board, the Company shall be represented by any other non-conflicted members of the Management Board or by a Supervisory Board member designated by the Supervisory Board. In addition it is provided that the respective member of the Management Board shall not take part in the decision-making in respect of such legal act or lawsuit and that any such legal acts require the approval of the Supervisory board.

The Rules of Procedure of the Management Board establish further rules on the reporting of (potential) conflicts of interest.

Supervisory Board

The Supervisory Board supervises the Management Board and its policies and the general course of affairs of the AMG Group. Under the two-tier corporate structure under Dutch law, the Supervisory Board is a separate body that is independent of the Management Board. Members of the Supervisory Board can neither be members of the Management Board nor an employee of the Company. The Supervisory Board in discharging its duties, will act in the interests of the Company and AMG Group taking into account the interests of the Company's stakeholders. The Supervisory Board discusses and approves major management decisions and the Company's strategy.

The Supervisory Board has adopted its own Rules of Procedure concerning its own governance, committees, conflicts of interest etc. The Rules of Procedure are published on the Company's website and include the charters of the committees to which the Supervisory Board has assigned certain tasks, while retaining overall responsibility. These committees are the Remuneration Committee, the Selection and Appointment Committee and the Audit committee.

The Supervisory board shall be assisted by the Company Secretary of the Company who shall be appointed by the Management Board after approval of the Supervisory Board has been obtained.

The number of members of the Supervisory Board will be determined by the General Meeting of Shareholders with a minimum of three members. Members of the Supervisory Board shall be appointed for a maximum term of four years and may be reappointed for additional terms not exceeding four years. Unless the General Meeting of Shareholders provides otherwise, a member of the Supervisory Board cannot be reappointed for more than three terms of four years.

The General Meeting of Shareholders appoints the members of the Supervisory Board from a nomination of at least the number of persons prescribed by Dutch law (currently two) made by the Supervisory Board. The nomination is binding, meaning that the General Meeting of Shareholders may only appoint one of the nominated persons, unless the General Meeting of Shareholders rejects the nomination with an absolute majority (more than 50% of the votes cast) representing at least one-third of the issued share capital. If the Supervisory Board has not made a nomination, the appointment of the members of the Management Board is at the full discretion of the General Meeting of Shareholders. The General Meeting of Shareholders may, at any time, suspend or remove members of the Supervisory Board. A resolution of the General Meeting of Shareholders to suspend or remove members of the Supervisory Board requires an absolute majority (more than 50% of the votes cast) representing at least one-third of the issued share capital, unless the Supervisory Board has proposed the suspension or dismissal, in which case an absolute majority is required, without any quorum requirement.

As required under the Dutch Corporate Governance Code, the Company has formalized strict rules to avoid conflicts of interest between the Company and the members of the Supervisory Board.

General Meeting of Shareholders

A General Meeting of Shareholders is held at least once per year. During the Annual Meeting, the Annual Report including the report of the Management Board, the annual financial statements and the report of the Supervisory Board are discussed as well as other matters pursuant to Dutch law or the Company's Articles of Association. As a separate item on the agenda, the General Meeting of Shareholders is entrusted with the discharge of the members of the Management Board and the Supervisory Board from responsibility for the performance of their duties during the preceding financial year. The General Meeting of Shareholders is held in Amsterdam, the Netherlands and takes place within six months from the end of the preceding financial year.

Meetings are convened by public notice and by letter, or by use of electronic means of communication, to registered shareholders. Notice is given at least fifteen days prior to the date of the Meeting. The main powers of the General Meeting of Shareholders are set forth in the Company's Articles of Association which are published on the Company's website and the applicable provisions of Dutch law.

On May 13, 2008, the General Meeting of Shareholders resolved to authorize the Management Board for a period of 18 months from that date (until November 12, 2009) as the corporate body which, subject to approval of the Supervisory Board is authorized to issue shares, including any grant of rights to subscribe to shares, with the power to exclude or restrict pre-emptive rights. This authorization allows the issue of up to 10% of the Company's outstanding share capital as of December 31, 2007.

In addition on May 13, 2008 the General Meeting resolved to authorize the Management Board for a period of 18 months from that date (until November 12, 2009) as the corporate body which, subject to approval of the Supervisory Board, is authorized to effect acquisitions of shares by AMG. The number of shares to be acquired is limited to 10% of the Company's issued share capital as of December 31, 2007 taking into account the shares previously acquired and disposed of at the time of any new acquisition. Shares may be acquired through the stock exchange or otherwise, at a price between par value and 110% of the stock exchange price. The stock exchange referred to in the previous sentence is the average closing price of the shares at Euronext Amsterdam on the five consecutive trading days immediately preceding the day of purchase by or for the account of the Company.

Articles of Association

The Company's Articles of Association can be amended by a resolution of the General Meeting of Shareholders on a proposal of the Management Board which has been approved by the Supervisory Board. A resolution of the General Meeting of Shareholders to amend the Articles of Association which has not been taken on proposal of the Management Board and approval of the Supervisory Board, should be adopted by a majority of at least two-thirds of the votes cast in a meeting in which at least 50% of the issued share capital is represented.

Decree on Article 10 of the Takeover Directive

The information required by the Decree on Article 10 of the Takeover Directive is included in this Corporate Governance section and the Report of the Supervisory Board.

Below is an overview of the significant agreements to which the Company is a party, which are affected, changed or terminated subject to a condition of a change of control.

The Company is a party to the following agreement that will be terminated under the condition of a change of control over the Company as a result of a public takeover offer. The Company's Credit Facility Agreement (as amended) has a provision that requires the Company to repay the entire outstanding amount under its Credit Facility Agreement upon a change of control, as defined therein.

The Company is also a party to the following agreements that will come into force upon a change of control pursuant to a public offer. Certain members of the Management Board have provisions in their contracts that pertain to a change of control. Additionally, the AMG Option Plan has a provision that permits the Management Board to cancel or modify the options granted to Management Board members and other employees, upon a change of control.

Other than the above-mentioned agreements, the Company is not party to any other important agreements that will come into force, be amended or terminated upon a change of control pursuant to a public takeover offer.

Dutch Corporate Governance Code

The Company endorses the Corporate Governance Code's principles as applicable to the Company in 2008 and applies virtually all best practice provisions as included in the Dutch Corporate Governance Code applicable to the Company in 2008. Deviations from the best practice provisions involve the remuneration policies of the Company. In particular these deviations stem from the specialized nature of the Company's business, a reflection of local market practice in which executives may be employed and the recognition of pre-existing contractual agreements.

AMG was formed in March 2007 through the merger of eight operating companies. The members of the Management Board had pre-existing contracts as executives of certain of the operating companies that formed AMG. These contracts reflect local market conditions and customary provisions in the countries in which the executives may have been employed. They have provisions that do not fully comply with the Corporate Governance Code's best practices. In view of the specialized nature of AMG's business and the qualifications and expertise of the present members of the Management Board, AMG intends to honor its existing contractual commitments to those members of the Management Board, in order to retain their services and to maintain their commitment to the Company.

In 2008, the Remuneration Committee of the Supervisory Board developed an appropriate remuneration policy for the present members of the Management Board and any future members of the Management Board for the years 2009 and beyond, in the light of various factors including the Company's existing contractual commitments to the present members of the Management Board. In doing so, the Remuneration Committee has sought advice from compensation and benefit consultants on remuneration packages offered by companies similar to the Company in terms of size and complexity. The (revised) remuneration policy for members of the Management Board as proposed by the Supervisory Board will be submitted for adoption by the General Meeting of Shareholders in its Annual Meeting to be held in May 2009. This (revised) remuneration policy is part of and can be found in the Report of the Supervisory Board set forth in this Annual Report.

Below are the best practice provisions included in the Dutch Corporate Governance Code applicable to the Company in 2008, not (fully) applied during 2008.

II.2.1

Options to acquire shares are a conditional remuneration component, and become unconditional only when the Management Board members have fulfilled predetermined performance criteria after a period of at least three years from the grant date.

The members of the Management Board have been granted unconditional options.

II.2.2

If the company, notwithstanding best practice provision II.2.1, grants unconditional options to management board members, it shall apply performance criteria when doing so and the options should, in any event, not be exercised in the first three years after they have been granted.

The members of the Management Board have been granted unconditional options that do not have any performance criteria required to be met. Additionally, the options have a vesting schedule which permits a majority of the options to be exercised within the first three years after having been granted.

II.2.7

The maximum remuneration in the event of dismissal is one year's salary (the 'fixed' remuneration component). If the maximum of one year's salary would be manifestly unreasonable for a Management Board member who is dismissed during his first term of office, such board member shall be eligible for a severance pay not exceeding twice the annual salary.

Each member of the Management Board has a contract of employment with AMG. That contract provides for a term of two years with severance of two years' compensation payable in the event of termination by the Company without cause. Each member also has a contract entered into by the member with a now-constituent entity of AMG prior to the formation of AMG. With respect to each member, other than Dr. Walter, the contracts generally provide for a comparable term and severance. In the case of Dr. Walter, his original contract, dated October 1, 2006, specified a term of five years; no reference is made to payments of severance in the event of termination.

III.7.1

A supervisory board member shall not be granted any shares and/or rights to shares by way of remuneration.

The General Meeting of Shareholders approved granting shares to members of the Supervisory Board as part of their remuneration.

III.7.2

Any shares held by a Supervisory Board member in the company on whose board he sits are long-term investments.

The undertaking by members of the Supervisory Board not to transfer or otherwise dispose of shares in AMG's share capital until the earlier of the third anniversary of the date of the grant and the first anniversary of the date on which such member ceases to be a member of the Supervisory Board is limited to shares granted as part of their annual remuneration and does not extend to any other shares in the Company held by such member.

Conflict of Interest

In February 2009 the Company acquired 3,938,200 common shares of Timminco at a price of C$3.55 per share (a total cost of C$13,980,610), as part of a C$25 million private placement by Timminco, the balance of which was fully subscribed by other investors. The proceeds of this private placement were used for general corporate purposes, including repayment of funds drawn on Timminco's revolving credit facility.

The acquisition of the Timminco shares was approved by the Management Board and the Supervisory Board in accordance with articles 11, 12 and 13 of the Rules of Procedure of the Management Board. Neither Dr. Schimmelbusch, who also serves as Chairman and CEO of Timminco, nor Mr. Spector, who also serves as Vice-Chairman and a Director of Timminco, participated in the discussion or the vote on the acquisition of the shares in the meeting of the Management Board. Mr. Messman, who also serves as a Director of Timminco, did not participate in the discussion or the vote on the acquisition of the shares in the meeting of the Supervisory Board. Accordingly, best practice provisions II.3.2 up to and including II.3.4 as well as best practice provisions III.6.1 up to and including III.6.3 of the Dutch Corporate Governance Code have been complied with.

No further conflicts of interest that were of material significance to the Company and/or members of the Management Board and Supervisory Board were reported in the period starting January 1, 2008 up to and including February 28, 2009 other than the conflict of interest described above. Further during this period the Company did not enter into any material transaction with a shareholder holding an interest of 10% or more in the Company's share capital.

Sustainable Development

AMG is committed to achieving the highest standards of safety and environmental conduct at all of its manufacturing facilities and producing materials that help its customers to minimize negative environmental impact.

Scope and Boundaries

Two aspects of sustainable development remain central to AMG's business. The first involves servicing the green economy, acting as a key link in the supply chain for the solar, nuclear, advanced materials and recycling industries, each of which will play a vital role in addressing the ongoing challenges of climate change, waste reduction and pollution elimination. At the same time AMG is committed to measuring and minimizing the environmental footprint associated with its own manufacturing operations.

This report gives an overview of the safety and environmental performance of AMG's Advanced Materials Division with specific focus on the comparison between data collected for that Division in 2007 (AMG's first full year of operations) and 2008. AMG continues to utilize and develop the environmental aspects of the Global Reporting Initiative (GRI) as the basis for this report. It should be noted that the inclusion this year of data for the recently acquired Fremat facilities in Freiburg, Germany means that 2007 and 2008 data are not directly comparable. The facilities included in the report are detailed in the table below.

	2007	2008
Ohio	Y	Y
Chauny	Y	Y
Lucette	Y	Y
Nuremberg	Y	Y
Rotherham	Y	Y
Brazil	Y	Y
Minworth	Y	Y
Anglesey	Y	Y
Freiburg	N	Y

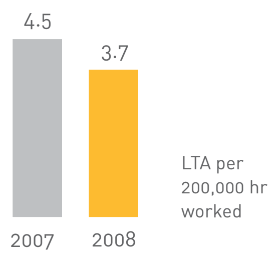
For the first time this year, AMG's majority owned subsidiaries, Timminco and GK, were required to collect and report GRI sustainable development performance indicators. These subsidiaries will report on these sustainable development indicators in coming years. At present AMG does not collect data for its Engineering Systems Division since it represents a small fraction of AMG's environmental impact.

Workforce and Safety Data
GRI Indicators LA1, LA4 and LA7

The continued health and safety of all employees is a core value of AMG. The safety data reported here covers all accidents involving AMG employees at any of the Division's facilities. Local regulations were used to categorize lost time accidents. Accidents involving contractors working on these sites are not included in this data.

In 2008 the Division had a workforce of approximately 1,400, of which 77% were covered by collective bargaining agreements. There were no fatal accidents among this workforce during 2007 or 2008. Safety performance continued to improve year on year. Within the Advanced Materials Division, the lost time accident (LTA) rate fell 18% from 4.5 in 2007 to 3.7 in 2008.[1] Similarly, severity of these accidents declined from 0.64 in 2007 to 0.54 in 2008.[2]

Advanced Materials Division LTA Rate 2007–2008



[1] Lost time injury frequency rate = number of lost time injuries x 200,000/total hours worked. Lost time injury was defined using local regulations and ranged from minimum one lost day to three lost days.

[2] Severity is defined as the number of worker-days lost as a result of disabling injuries per thousand worker-hours of exposure.

Resource efficiency and recycling GRI Indicators EN1 and EN2

Recycling metals is core to a number of the Advanced Materials Division's units. Each manufacturing site reports on its sources of raw materials in metric tons and utilizes the GRI guidelines to identify the origin as:

I. Primary raw materials that are being used for the first time. These materials will mainly be ores or primary metals, or

II. Secondary raw materials that are byproducts of primary production processes, or recycled materials that have already been used once and will be recycled so they enter a further useful life.

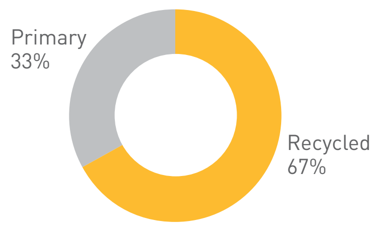
In some cases determination of the origin of a material is difficult to determine. For example, although scrap aluminum clearly falls under the recycled category, aluminum ingots from aluminum producers are often a mixture of primary and recycled materials. Similarly, paper packaging often includes post-consumer recycled materials. Wherever possible, information is obtained from the supplier to make a determination; when a determination cannot be made, materials are categorized as primary by default.

Excluding the Brazil mining operations, where by definition all raw materials are primary, in 2008 the Advanced Materials Division utilized 147,000 metric tons of incoming raw materials, 18% of which were either recycled or secondary raw materials.

These recycled materials were primarily scrap metals and metal containing residues from the oil refining and power generation sectors.

The percentage of primary raw materials used by the different units varies significantly depending on the business sector. Of particular note is Metallurg Vanadium where almost all metal-bearing raw materials are secondary, giving an overall secondary or recycled raw material usage of 67%.

Metallurg Vanadium Raw Materials 2008



Energy consumption GRI Indicators EN3 and EN4

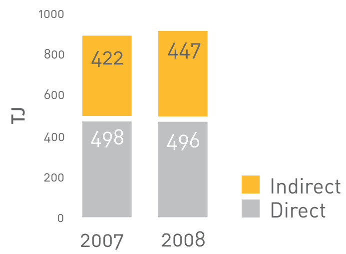
A full, detailed understanding of energy carriers, including electricity, natural gas, and liquid fuels and the sources of these energy carriers is needed in order to identify energy savings opportunities and to understand greenhouse gas emissions.

All of the Advanced Materials Division's sites were required to report a detailed breakdown of their energy usage and identify sources of energy. Administrative offices and inactive manufacturing facilities were not required to report.

The total energy usage for the Division in 2008 was 944,000 gigajoules (GJ) compared to 920,000 GJ in 2007. The increase was commensurate with an increase in total production tonnages and the inclusion of the Freiburg facility in the 2008 data. The total was split almost evenly between indirect energy usage

(447,000 GJ, predominantly electricity) and direct energy usage (496,000 GJ, predominantly natural gas).[3]

Advanced Materials Division Energy Usage



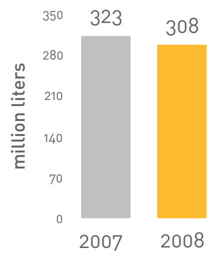
The split between non-renewable and renewable sources is complex, depending on the local utility company's generation mix, with the notable exception of Brazil where almost all electricity (both that purchased from the utility and internally generated) comes from hydroelectric generation contributing 90,000 GJ. Overall it is estimated that in excess of 10% of the total energy used by the Division comes from clearly defined renewable sources.

Water consumption
GRI Indicator EN8

Water consumption across the Division was reported for all purposes, including both process and sanitary uses. In 2007, the Division (excluding the mine site in Brazil) utilized 323 million liters of water, decreasing marginally to 308 million liters in 2008.

Several of AMG's businesses, notably the antimony trioxide plants in France, the coatings plant in Freiburg and the aluminum powder plants in the UK, run essentially dry production processes utilizing water almost exclusively for drinking and sanitary uses. These facilities each use 5 to 10 million liters per year, equivalent to that used by just 10 to 20 average western households. Other facilities use water for non-contact cooling purposes and often utilize closed cycle cooling loops and cooling towers to cut down on utilization, resulting in average usage of less than 90 million liters per year.

Advanced Materials Division Water Usage[4]



The largest water usage within the Advanced Materials Division is at the mine site in Brazil representing over 80% of the Division's total water usage. Estimated consumption at the mine decreased from 4,977 to 4,612 million liters as a result of reduced operations to install new, more efficient equipment.[5]

Climate Change
GRI Indicators EN16 and EN17

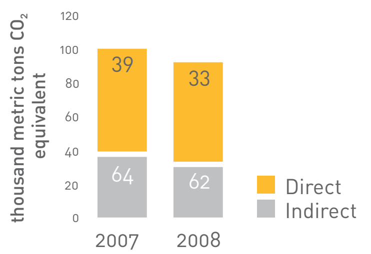
All Advanced Materials Division units were required to report CO_2 equivalent greenhouse gas emissions for 2008. Both direct greenhouse gas emissions (from the combustion of fossil fuels) and indirect emissions (from the purchase of electricity, steam or compressed gases) were reported and were calculated using local regulations, GHG Protocol methodology or first principle.

For the Advanced Materials Division, CO_2 equivalent greenhouse gas emissions decreased from 103,000 metric tons in 2007 to 94,000 metric tons in 2008. This reduction can be attributed to improved efficiencies and the use of better, updated emissions factors and was achieved despite the inclusion of the Freiburg facility and a small increase in overall production tonnage.

AMG will continue to refine its processes for collecting and reporting greenhouse gas emissions in the coming years in line with its goal of reducing its overall carbon footprint.

[3] Indirect energy consumption does not include the energy consumed by electricity producers to generate the electricity or transmission losses.
[4] Excludes Brazil mine
[5] There is no direct measurement of water use at the mine and the volume is estimated based on pump capacities and operation times.

Advanced Materials Division GHG Emissions



Emissions to air
GRI Indicators EN19 and EN20

AMG's operations benefit from stringent air emissions control technology. Particulates from furnaces, perhaps the major source of potential emissions, are controlled by bag-houses, which are a reliable and widely used technology for particulate emission control. Additionally, acid gases such as SOx are controlled by desulfurization techniques. The inorganic nature of AMG's processes means that organic hazardous air pollutants (HAPs) and chlorinated and fluorinated organic species do not represent a significant issue for any member of the Division.

A survey of ozone depleting substances (EN 19) revealed that negligible amounts of these materials are utilized on the Divisions's facilities. Where ozone depleting substances could have been present, for example in chillers or air conditioners, refrigerant replacement with non-ozone depleting substances such as R134A has often been carried out.

AMG facilities evaluate emissions from all operations in accordance with all local legislation. Where there are significant emissions, the regulators typically require continuous emissions monitoring systems (CEMS), while for less intensive emissions periodic stack emissions testing occurs. For the lowest level sources, engineering calculations are often utilized to demonstrate that the emissions associated with them are insignificant. In calculating its emissions AMG has used actual CEMS data where available or the latest stack testing data (which may not have been collected in 2007). For non-regulated sources the emissions are assumed to be insignificant.

The two major contributors to air emissions are SOx and particulate. In 2008, particulate emissions across the Advanced Materials Division totaled 40 metric tons, an increase from 20 metric tons in 2007, resulting from improved data and measurements. Total SOx emissions in 2008 were 121 metric tons, down from 143 metric tons in 2007. Available data indicates that the remaining air pollutant, NOx, is a minor contributor for the Division.

Emissions to water
GRI Indicator EN21

In 2007 and 2008 all Advanced Materials Division companies reported the volume of aqueous effluents discharged to local water courses. This does not include rainwater runoff from the sites but does include process water discharges and non-sanitary discharges to sewers. In addition, chemical analysis of the effluent was used to determine the total mass of contaminants discharged.

In 2008 total waste water disposed to water courses by the Division, excluding the Brazil mine, totaled 190 million liters compared to 152 million liters in 2007. The increase is attributed to improved estimation of discharge volumes. The Brazil mine site, which is a highly water intensive process, discharged an estimated 4,612 million liters in 2008, down from 4,977 million liters in 2007.[6] This was attributed to a shutdown period in 2008 to install more energy and water efficient process equipment, the benefits of which will be realized in 2009. Four manufacturing sites, the aluminum powder facilities in the UK and the antimony trioxide plants in France, have no offsite water disposal outside of that used for sanitary purposes.

The pyrometallurgical processes used extensively by the Advanced Materials Division facilities means that relatively little contamination enters the water — most water is used solely for non-contact cooling and filtration or treatment plants mean the water is often cleaner when it leaves the site than when it enters. There are, however, a small number of wet chemical processes generating waste streams. For the four production sites reporting industrial process water disposal, the major

[6] Based on water usage estimates

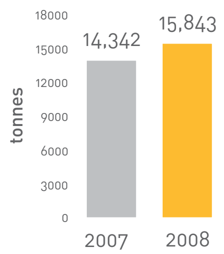
contaminants were metals (62 kg), fluoride (54 kg) and total suspended solids (2,844 kg). Additionally this water included 8,156 kg of chemical oxygen demand. Further, the large volume of water discharged to surface water from the mine site in Brazil contains additional suspended solids.

Waste disposal
GRI Indicator EN22

In both 2007 and 2008 all Advanced Materials Division facilities were required to report a detailed breakdown of solid waste disposal identifying all waste streams, classifying them as hazardous or non-hazardous according to local regulations and identifying their fate as reuse, recycling or disposal.

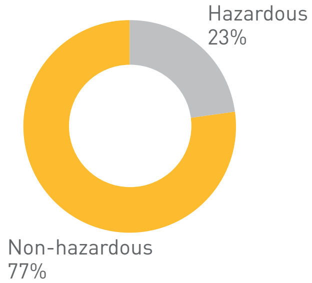
In 2008 total waste disposed to landfill by the Advanced Materials Division totaled 15,843 metric tons, representing an increase of 1% from 2007. This waste represented 6.5 % of the total production of the company. The majority of waste generated in 2008 (77%) was non-hazardous.

Total Landfilled Waste Disposal



Although the total amount of both hazardous and non-hazardous waste generated in 2008 was greater than in 2007, predominantly due to building demolition, furnace relining projects and the inclusion of data for the Freiburg facilities, this was offset by initiatives to sell, recycle or otherwise beneficially reuse some materials traditionally viewed as wastes. These initiatives included marketing large volumes of materials traditionally disposed but which contain valuable, recoverable components, through onsite reprocessing to trash reduction including the introduction of office paper, plastic and scrap soda can recycling programs.

2008 Hazardous to Non-hazardous Waste Ratio



REACH

The most comprehensive risk assessment policy for chemicals in the world came into effect across the European Union in June 2007. Over the last two years AMG Group companies, particularly those located within the EU, have worked diligently to comply with the REACH regulations. This coordinated group effort has covered all aspects of AMG's manufacturing businesses and included developing substance inventories, categorizing raw materials, intermediates and products according to REACH nomenclature and identifying risks, opportunities and costs associated with the new regulations.

As of December 1, 2008 and in compliance with the regulations, AMG had pre-registered all raw materials it imports into the EU, and all of its products to ensure continued supply to our customers. Dedicated REACH managers are in place at a number of the manufacturing facilities to coordinate activities and work together to achieve efficiencies in the process. Additionally, AMG's companies are members of several of the Consortia established to develop the information required. As REACH moves into its next phase, Registration, AMG will work closely with all members of the supply chain, Consortia and other Substance Information Exchange Forum (SIEF) members to ensure risk assessment dossiers are prepared and submitted within the regulatory timescales.

Overview of AMG Environmental Key Performance Indicators

Safety and Environment

GRI Indicator	Description		Advanced Materials 2007	2008
LA1	Total workforce		No data	1,394
LA4	% of employees covered by collective bargaining agreements		No data	77
LA7	Accident rates	Total	4.5	3.7
EN2	% Recycled raw materials	%	20	18
EN3	Direct energy consumption	TJ	498	496
EN4	Indirect energy consumption	TJ	422	447
EN8	Water consumption (manufacturing)	Million l	323	308
EN8	Water consumption (mining)	Million l	4,977	4,612
EN16	CO_2 equivalent emissions	mt	103,000	94,000
EN20	SOx emissions	mt	143	121
EN20	NOx emissions	mt	No data	6.8
EN20	Particulates discharged to air	mt	20	40
EN21	Metals discharged to water	kg	No data	62
EN22	Hazardous waste (including recycled)	mt	3,376	5,368
EN22	Non-hazardous waste (including recycled)	mt	15,467	17,477
EN22	Percent of waste recycled	%	18	30
EN22	Waste disposed to landfill	mt	14,342	15,843

GRI Content Index

GRI Reference	Indicator	Pages
	General	
1.1	CEO and Chairman Statement	8
2.1 – 2.2	Name, primary brands, products and services	16–27
2.3 – 2.7	Structure, geographical presence, markets served	2, 16–27
2.8	Scale of the organization	16–27
2.9	Significant changes in size, structure or ownership	69–74
2.10	Awards received in 2008	NA
3.1 – 3.4	Reporting period, date of previous report, reporting cycle, contacts	69
3.5 – 3.12	Report scope, boundary of report, changes from previous report	2–3
4.1 – 4.4	Structure and governance	56–61
4.14 – 4.15	Stakeholder groups, basis for selection	57
	Environmental Indicators	
EN1 – EN2	Materials used by weight or volume, recycling ratio	63
EN3 – EN4	Direct and indirect energy consumption by primary energy source	63
EN8	Total water withdrawal by source	64
EN16	Total direct and indirect greenhouse gas emissions by weight	64
EN19 – EN20	Ozone-depleting substances, NOx, SOx, and other significant emissions	65
EN21	Total water discharge by quality and destination	65
EN22	Total weight of waste by type and disposal method	66
	Social Indicators	
LA1, LA4, LA7	Workforce, collective bargaining agreements and accidents	62
	Economic Indicators	
EC1	Economic value generated and distributed	4–5

Environmental, Health, Safety and Social Reporting Statement of Assurance

Scope, Objectives & Responsibilities

AMG's environmental, health, safety and social performance reporting has been prepared by the management of AMG who were responsible for the collection and presentation of the information. Conestoga-Rovers & Associates (CRA) was retained by AMG to conduct an independent review and assurance of the information and data reported in the Sustainable Development section of this Report. The objective of the assurance process was to check the materiality of the issues included in the Report and the completeness of reporting. Any claims relating to financial information contained within the Report are excluded from the scope of this assurance process. CRA's responsibility in performing our assurance activities is to the management of AMG only and in accordance with the terms of reference agreed with them. CRA does not accept or assume any responsibility for any other purpose or to any other person or organization. Any reliance by any such third party may place on the Report is entirely at its own risk.

Approach and Limitations

CRA's assurance engagement has been planned and performed in accordance with AMG's internal guidance and definitions for the reported indices. The assurance approach was developed to be consistent with the GRI G3 Guidelines and international standards for assurance appointments. CRA conducted site visits to four of the nine sites, and met with/interviewed personnel responsible for collecting, reviewing and interpreting the data and information for presentation in the Report for all sites. Stakeholder engagement was not within the scope of the assurance activities.

Conclusions/Recommendations

On the basis of the method and scope of work undertaken, and the information provided to CRA by AMG, the process undertaken by AMG provides a balanced representation of the issues concerning AMG's sustainability performance and are an appropriate presentation of AMG's environmental, safety, health and social performance in 2008.

In our opinion the processes for collecting and reporting sustainability related data that AMG introduced in 2007 have been enhanced through better communication and awareness and more consistent application of the environmental indices across the division. However, challenges such as ensuring consistency in the approach related to various performance metrics continue to exist in regard to providing consistent and complete data in an efficient manner. It is recommended that AMG focus on these challenges to improve reporting but they do not materially affect the conclusions presented herein.

Gregory A. Carli, P.E., Principal
Conestoga-Rovers & Associates
www.CRAworld.com

GRI REPORT
3rd PARTY CHECKED

Financial Review

AMG had a successful year in 2008 despite a challenging fourth quarter.

Revenue

AMG's revenue increased to $1,517.9 million in the year ended December 31, 2008 from $1,155.7 million in the year ended December 31, 2007, a 31% increase. Advanced Materials, Engineering Systems and Timminco all contributed to the growth in revenue due to the strength in metals pricing and the demand for solar products, both furnaces and upgraded metallurgical silicon ("UMSi"). In April 2008, AMG acquired 79.52% of the outstanding shares of Graphit-Kropfmühl which further increased revenues by $87.9 million. Despite the fourth quarter economic crisis, AMG was still able to achieve a record year.

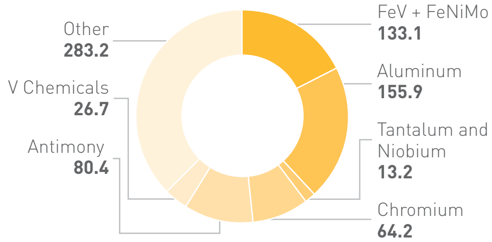
For the full year 2008, revenue in the Advanced Materials Division increased 10% growing to $756.7 million. Selling price increases across most product lines led to the revenue growth. The largest product contributors were chromium metal and ferrovanadium. Volumes for chromium and ferrovanadium remained relatively consistent with 2007, but the average selling prices increased by 48% and 81%, respectively. This growth in revenue was achieved despite a weak fourth quarter caused by the economic crisis.

Revenue for the Engineering Systems Division increased to $435.5 million in the year ended December 31, 2008 from $312.1 million in the year ended December 31, 2007, a 40% increase. The largest area of growth was solar silicon melting and crystallization furnace systems (DSS furnaces) sold primarily to the energy (solar-photovoltaic) industry. With the expansion of the Berlin facility, Engineering Systems was able to increase its production of DSS furnaces from 1 per week to 7 per week and continue to meet the growing demand of solar wafer and cell producers. The division's revenue from its Own & Operate facilities decreased to $23.1 million in 2008 from $27.0 million in 2007, a 14% decline. The Own & Operate business is predominantly driven by the automotive industry and therefore was significantly impacted by the economic downturn. In addition to record revenue in 2008, the Engineering Systems Division had a record year-end order backlog of $332 million at December 31, 2008, an increase of 32% versus the $252 million backlog at December 31, 2007.

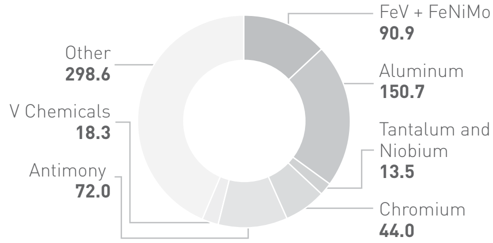
During 2008, Timminco completed the first phase of its expansion to produce upgraded metallurgical silicon. Sales of UMSi grew by $55.8 million in 2008. Revenue for Timminco's traditional silicon metal product line also increased in excess of 25% due to improved pricing. The magnesium product line had relatively flat revenues for 2008 when compared to 2007. Magnesium is becoming a secondary product line as compared to the significantly more profitable silicon.

Graphit-Kropfmühl was acquired in April 2008 and contributed $87.9 million to AMG's revenue in its eight months after acquisition. It benefited from high silicon metal pricing as well as continued strength in its graphite business.

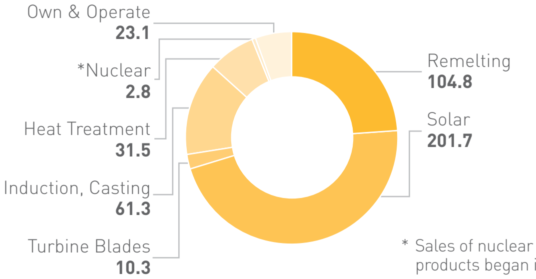
2008 Advanced Materials Revenue $M



2007 Advanced Materials Revenue $M

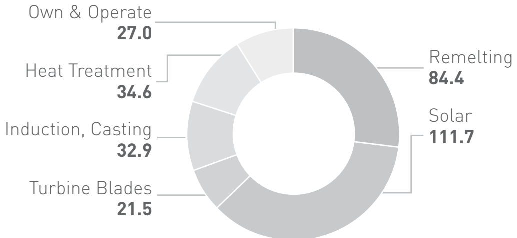


2008 Engineering Systems Revenue $M

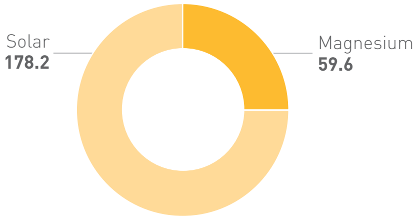


* Sales of nuclear products began in 2008.

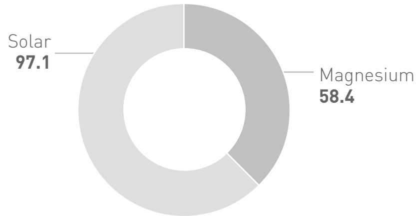
2007 Engineering Systems Revenue $M



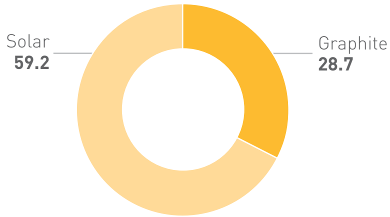
2008 Timminco Ltd. Revenue $M



2007 Timminco Ltd. Revenue $M



2008 Graphit Kropfmühl Revenue $M



Year ended December 31	2008	2007
Revenue and expenses		
Advanced Materials revenue	756,726	688,039
Engineering Systems revenue	435,462	312,147
Timminco revenue	237,824	155,473
Graphit-Kropfmühl revenue	87,932	–
Total revenue	1,517,944	1,155,659
Cost of sales	1,219,665	954,229
Gross profit	298,279	201,430
Selling, general and administrative expenses	167,081	123,413
Restructuring and asset impairment expenses	56,904	(241)
Environmental expenses	5,233	2,107
Other (income) expense, net	(6,158)	(8,018)
Operating profit	75,219	84,169

Gross profit

AMG's gross profit increased to $298.3 million in the year ended December 31, 2008 from $201.4 million in the year ended December 31, 2007, a 48% increase. Gross profit as a percentage of sales improved to 20% in 2008 as compared to 17% in 2007. All divisions contributed to the increase in gross profit. Advanced Materials improved their gross profit by $19.9 million, or 19% due to improved average selling prices for the year. This increase in gross profit was despite a $20.5 million inventory write-down during the fourth quarter. Engineering Systems capitalized on in-sourcing and economies of scale in making DSS furnaces and increased its gross margin by 44%. Timminco's expansion into UMSi improved its margins by $33.6 million and the acquisition of Graphit-Kropfmühl contributed $1.9 million to gross profit, despite a one-time charge of $8.2 million related to purchase accounting for inventory.

Selling, general and administrative expenses

Selling, general and administrative costs increased to $167.1 million in the year ended December 31, 2008 as compared to $123.4 million in the year ended December 31, 2007. As a percentage of sales, SG&A costs remained relatively flat at 11% of sales in 2008 and 2007. The increase in costs is primarily related to corporate development and the larger infrastructure of the Company needed to operate effectively as a public company in the Netherlands. These expenses primarily consist of compensation and benefits, professional fees, travel costs, insurance and other related expenses. Personnel expenses increased from $68.3 million in the year ended December 31, 2007 to $90.8 million in the year ended December 31, 2008. The largest individual element of this increase was stock-based compensation expense, a non-cash expense, recognized for options granted in the amount of $20.1 million, as compared to $4.2 million in 2007. The second largest component of the increase related to the inclusion of GK in the group, which added $6.1 million of additional compensation and benefits. The Company incurs professional fees from global service providers. Professional services were $29.4 million and $18.9 million in the periods ended December 31, 2008 and 2007, respectively. This amount includes audit fees, legal fees, recruiting fees, directors' fees as well as consultants used in all operations. The significant increase in professional services was due largely to corporate development efforts. Research and development expense increased from $6.2 million in the year ended December 31, 2007 to $8.2 million in the year ended December 31, 2008. The significant investment in R&D was related to the development of a solar silicon ingoting process and thin film coatings to be used in the photovoltaic industry. All other SG&A expenses, such as travel and entertainment, insurance, occupancy, communication and bank fees increased to $38.7 million in the year ended

December 31, 2008 from $30.0 million in the year ended December 31, 2007. Approximately $4.5 million of this $8.7 million increase in all other SG&A was related to the inclusion of Graphit-Kropfmühl in the consolidated results.

Restructuring and asset impairment expenses

Restructuring and asset impairment charges were $56.9 million in the year ended December 31, 2008. An asset impairment charge of $46.0 million was recognized at Graphit-Kropfmühl. The impaired assets were primarily intangible assets and machinery and equipment. The machinery was assigned increased value in the purchase accounting. Asset impairment tests are required annually under IFRS and it was determined that the increase in asset values from purchase accounting could not be recovered. Additional asset impairment charges were incurred at Timminco, where loans made to Fundo Wheels were written off as it became apparent that the loans were uncollectable. Finally, restructuring charges were incurred at Timminco and at several Advanced Materials businesses. Timminco recorded its restructuring as part of its plan to close its Haley operation. The Advanced Materials businesses recorded severance accruals related to headcount reductions made at several facilities to adapt to slowing demand caused by the economic crisis.

Other Income

Other income for the year ended December 31, 2008 primarily consisted of government grant income of $4.4 million largely attributable to the Berlin facility. Additional other income included a contract cancellation fee of $1.8 million that was paid by an Engineering Systems division customer. Other income for the year ended December 31, 2007 was primarily related to the two acquisitions completed during the year: FNE and the Berlin facility. The FNE acquisition generated negative goodwill of $2.2 million while the Berlin acquisition generated government grant income of $5.1 million.

Operating Income

AMG's operating income decreased to $75.2 million in the period ended December 31, 2008 from $84.2 million in the year ended December 31, 2007, an 11% decline. Overall, the operating performance of the Company improved for the year ended December 31, 2008, but operating profit also reflects the non-recurring asset impairment and restructuring charges of $56.9 million. Operating income as a percentage of revenue declined to 5% in the year ended December 31, 2008 as compared to 7% in the year ended December 31, 2007. Adjusted for non-recurring restructuring expenses, operating income was $132.1 million or 9% of revenue.

Finance expenses

The table below sets forth AMG's net finance expense for the periods ended December 31, 2008 and 2007. Interest expense declined as a result of the refinancing of debt that occurred in the third quarter of 2007 which lowered effective interest rates globally. The decline in effective interest rates was offset by increased debt due to the acquisition of Graphit-Kropfmühl and higher working capital levels within Advanced Materials and Timminco.

Period ended December 31 (amounts in $ thousands)	2008	2007
Interest expense	21,590	28,023
Interest (income)	(7,783)	(6,954)
Foreign exchange loss (gain)	6,331	(3,591)
Loss on debt extinguishment	–	34,668
Finance expense, net	20,138	52,146

Income taxes

The provisions for income taxes increased to $41.9 million, or 94% of pre-tax income, for the year ended December 31, 2008 from $20.7 million, or 72% of pre-tax income, for the period ended December 31, 2007. The increase in income tax provision is primarily a result of the Company's increased profit before taxes and the inability to deduct certain one-time charges. The effective tax rate for 2008 was significantly higher than the normalized statutory tax rate of 38% because the Company was unable to recognize a full financial accounting tax benefit for the restructuring and asset impairment expenses of $56.9 million which were primarily recorded in Canada and Germany. This treatment was adopted because of the Company's historical net operating loss position of the subsidiaries where the expenses were recorded.

Net Profit

The Company recorded net income attributable to shareholders of $14.5 million in the year ended December 31, 2008 as compared with a net income attributable to shareholders of $11.7 million in the year ended December 31, 2007. This performance is a result of improved operating performance, offset by asset impairment and restructuring and a higher tax provision.

Liquidity and Capital Resources

Sources of Liquidity

The Company's sources of liquidity include cash and cash equivalents, cash from operations and amounts available under credit facilities. At December 31, 2008, the Company had $143.5 million in cash and cash equivalents and $103.1 million available on its revolving credit facility. Changes in the Company's liquidity were due primarily to the acquisition of Graphit-Kropfmühl and a build in working capital within the Advanced Materials and Timminco divisions.

	2008	2007
Non-current loans and borrowings	138,990	115,726
Current loans and borrowings	93,043	25,056
Total debt	232,033	140,782
Cash	143,473	172,558
Net debt	88,560	(31,776)

The table below summarizes the Company's net cash provided by or used in its operating activities, investing activities and financing activities for the years ended December 31, 2008 and 2007.

	2008	2007
Net cash provided by (used in):		
Operating activities	123,353	74,500
Investing activities	(220,690)	(92,859)
Financing activities	79,574	123,425

Cash Flows

Net cash provided by operating activities increased to $123.4 million in the year ended December 31, 2008 from $74.5 million in the year ended December 31, 2007, a $48.9 million increase. The increase was primarily due to an increase in EBITDA, offset by an increase in working capital of $29.3 million, a decline in government grants and an increase in taxes paid.

Net cash used in investing activities increased to $220.7 million in the year ended December 31, 2008 from $92.9 million in the year ended December 31, 2007, a $127.8 million increase. The net cash outflow on the Graphit-Kropfmühl acquisition was $66.9 million. The remaining increase was primarily caused by an increase in capital expenditures to $158.3 million in the year ended December 31, 2008 from

$58.3 million in the year ended December 31, 2007. The largest portion of investment in 2008 was at Timminco where they continued to expand their production capability for UMSi. Expenditures for major expansion projects in the year ended December 31, 2008 included:

- $76.9 million for new equipment and expansion of solar-grade silicon metal production
- $7.2 million for the expansion of production at the Company's Berlin facility
- $12.1 million for machinery and equipment at the Company's new Own & Operate facility in Mexico
- $2.9 million for engineering for the planned expansion of the Company's spent catalyst roasting capacity
- $9.3 million for the expansion of tantalum production in Brazil
- $2.3 million for the expansion of the hydro-power plant that services the Company's operation in Brazil

The remaining capital expenditures of $47.6 million related to other smaller expansion projects as well as maintenance capital.

Cash provided by financing activities was $79.6 million in the year ended December 31, 2008 as compared to $123.4 million in the year ended December 31, 2007. Timminco borrowed $42.0 million on its credit facility in order to finance its expansion and working capital. Short term credit facilities of $10.7 million were also utilized within Advanced Materials to fund capital projects and working capital. The cash provided by financing activities was significantly lower than the cash generated from the initial public offering and the debt refinancing that were completed in the year ended December 31, 2007.

Outlook

Given the current economic environment it is not feasible to provide a reliable outlook for 2009. Advanced Materials will have a particularly challenging year, with specialty metals prices and demand continuing to decline. Engineering Systems enters the year with a strong backlog, which should help mitigate some effects of the current economic situation. Timminco is reviewing its growth plans in the face of significantly decreased demand for silicon metal and pricing and demand for solar grade silicon. GK's end markets are also affected by the material decreases in demand and it anticipates full year 2009 revenues and earnings to be below 2008 levels. Despite the challenging economic conditions, AMG remains positive on long-term growth prospects for its core markets of solar, recycling, fuel efficiency and nuclear.

Financial Statements

Consolidated Income Statement

For the year ended December 31	Note	2008	2007
In thousands of US Dollars			
Continuing operations			
Revenue	6	1,517,944	1,155,659
Cost of sales		1,219,665	954,229
Gross profit		298,279	201,430
Selling, general and administrative expenses		167,081	123,413
Restructuring expense	28	5,129	(241)
Asset impairment expense	12, 13, 38	51,775	–
Environmental expense	28	5,233	2,107
Other expenses		2,430	1,855
Other income	7	(8,588)	(9,873)
Operating profit	4	75,219	84,169
Loss on debt extinguishment	23	–	34,668
Interest expense		21,590	28,023
Interest income		(7,783)	(6,954)
Foreign exchange loss (gain)		6,331	(3,591)
Net finance costs	9	20,138	52,146
Share of loss of associates	14	(10,584)	(3,213)
Profit before income tax		44,497	28,810
Goodwill adjustment relating to deferred tax asset	10	–	1,386
Income tax expense	10	41,939	19,322
Profit for the year		2,558	8,102
Attributable to:			
Shareholders of the Company		14,453	11,704
Minority interests		(11,895)	(3,602)
		2,558	8,102
Earnings per share			
Basic earnings per share	22	0.54	0.44
Diluted earnings per share	22	0.53	0.43

The notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at December 31	Note	2008	2007
In thousands of US Dollars			
Assets			
Property, plant and equipment	12	313,470	155,763
Intangible assets	13	47,060	50,291
Investments in associates	14	15,700	11,286
Derivative financial instruments	34	–	194
Deferred tax assets	10	29,181	34,537
Restricted cash	19	15,889	14,582
Notes receivable	38	2,132	7,068
Other assets	17	11,612	8,946
Total non-current assets		435,044	282,667
Inventories	15	318,793	186,410
Trade and other receivables	16	173,422	187,243
Derivative financial instruments	34	6,393	3,582
Other assets	17	52,804	48,754
Short term investments	18	95	15,333
Cash and cash equivalents	20	143,473	172,558
Total current assets		694,980	613,880
Total assets		1,130,024	896,547
Equity			
Issued capital		724	722
Share premium		379,297	392,304
Other reserves		(2,215)	(9,923)
Retained earnings (deficit)		(123,110)	(137,439)
Equity attributable to shareholders of the Company		254,696	245,664
Minority interests		57,115	64,133
Total equity	21	311,811	309,797
Liabilities			
Loans and borrowings	23	138,990	115,726
Employee benefits	26	103,176	102,809
Provisions	28	12,841	12,011
Government grants	29	291	8,585
Other liabilities	31	9,245	9,087
Derivative financial instruments	34	3,530	77
Deferred tax liabilities	10	56,013	32,112
Total non-current liabilities		324,086	280,407
Loans and borrowings	23	3,021	1,102
Short term bank debt	25	83,566	16,202
Related party debt	24	6,456	7,752
Government grants	29	8,360	7,927
Other liabilities	31	53,882	42,356
Trade and other payables	32	156,697	126,827
Derivative financial instruments	34	15,419	4,994
Advance payments	6	94,049	74,731
Unearned revenue	30	35,624	–
Current taxes payable	10	14,708	11,496
Provisions	28	22,345	12,956
Total current liabilities		494,127	306,343
Total liabilities		818,213	586,750
Total equity and liabilities		1,130,024	896,547

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In thousands of US Dollars	Equity attributable to shareholders of the parent						
	Issued capital (Note 21)	Share premium	Other reserves (Note 21)	Retained deficit	Total	Minority interests	Total equity
Balance at January 1, 2007	59	129,986	(15,313)	(148,840)	(34,108)	10,367	(23,741)
Foreign currency translation	–	–	1,697	–	1,697	(369)	1,328
Loss on cash flow hedges, net of tax	–	–	(264)	–	(264)	–	(264)
Net income recognized directly in equity	–	–	1,433	–	1,433	(369)	1,064
Profit (loss) for the year	–	–	-	11,704	11,704	(3,602)	8,102
Total recognized income and expense for the year	–	–	1,433	11,704	13,137	(3,971)	9,166
Issuance of shares for contribution in kind	406	(26,576)		–	(26,170)	–	(26,170)
Issuance of shares in initial public offering	257	286,830	–	–	287,087	–	287,087
Transaction costs deducted from initial public offering proceeds	–	(8,526)	–	–	(8,526)	–	(8,526)
Issuance of shares to directors	–	140	–	–	140	–	140
Convertible debt at subsidiary	–	1,329	–	–	1,329	1,308	2,637
Valuation of convertible debt	–	(902)	–	–	(902)	(882)	(1,784)
Accretion of convertible debt	–	528	–	–	528	518	1,046
Issuance of shares by subsidiary	–	9,245	–	–	9,245	55,845	65,090
Share-based payment activity at subsidiary	–	–	–	–	–	1,062	1,062
Equity-settled share-based payments	–	–	3,957	–	3,957	–	3,957
Acquisition of minority interest	–	–	–	–	–	202	202
Other	–	250	–	(303)	(53)	(316)	(369)
Balance at December 31, 2007	722	392,304	(9,923)	(137,439)	245,664	64,133	309,797
Balance at January 1, 2008	722	392,304	(9,923)	(137,439)	245,664	64,133	309,797
Foreign currency translation	–	–	(12,037)	–	(12,037)	(11,541)	(23,578)
Loss on cash flow hedges, net of tax	–	–	(12,958)	–	(12,958)	–	(12,958)
Net income recognized directly in equity	–	–	(24,995)	–	(24,995)	(11,541)	(36,536)
Profit (loss) for the year	–	–	–	14,453	14,453	(11,895)	2,558
Total recognized income and expense for the year	–	–	(24,995)	14,453	(10,542)	(23,436)	(33,978)
Issuance of shares for exercise of share-based payments	2	3,006	(1,151)	–	1,857	–	1,857
Accretion of convertible debt	–	(84)	–	–	(84)	(83)	(167)
Share-based payment activity at subsidiary	–	–	1,311	–	1,311	1,626	2,937
Equity-settled share-based payments			16,720	–	16,720	–	16,720
Acquisition of minority interest	–	–		–	–	14,875	14,875
Other	–	(15,929)	15,823	(124)	(230)	–	(230)
Balance at December 31, 2008	724	379,297	(2,215)	(123,110)	254,696	57,115	311,811

(1) Note 21

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31	Note	2008	2007
In thousands of US Dollars			
Cash flows from operating activities			
Profit for the period		2,558	8,102
Adjustments to reconcile profit to net cash flows:			
Non-cash:			
Depreciation and amortization	12, 13	31,320	18,663
Amortization of purchase accounting adjustment to inventory		8,178	–
Restructuring expense/(income)	28	5,129	(241)
Asset impairment loss	12, 13, 38	51,775	–
Environmental expense	28	5,233	2,107
Net finance costs	9	20,138	52,146
Share of loss of associates	14	10,584	3,213
(Gain)/Loss on sale or disposal of property, plant and equipment	12	(896)	93
Equity-settled share-based payment transactions	27	20,063	4,207
Income tax expense	10	41,939	20,708
Working capital adjustments			
Change in inventories		(130,573)	(11,545)
Change in trade and other receivables		35,909	(50,099)
Change in prepayments		(10,068)	(10,938)
Change in trade payables, provisions, and other liabilities		69,259	67,280
Change in government grants	29	(8,184)	15,503
Other		3,656	(12,952)
Interest paid	9	(16,059)	(26,792)
Interest received	9	6,551	13,300
Income tax paid, net	10	(23,159)	(18,255)
Net cash flows from operating activities		123,353	74,500
Cash flows used in investing activities			
Proceeds from sale of property, plant and equipment	12	1,268	768
Acquisition of associates	5	(10,432)	(9,162)
Acquisition of subsidiaries (net of cash acquired of $1,671)	5	(69,993)	–
Acquisition of property, plant and equipment and intangibles	12, 13	(158,290)	(58,259)
Related party loans	24	(4,149)	(4,475)
Repayment of loan from related party		–	4,456
Change in short term investments	18	14,198	(15,333)
Change in restricted cash	19	(286)	(14,054)
Other		6,994	3,200
Net cash flows used in investing activities		(220,690)	(92,859)
Cash flows from financing activities			
Proceeds from issuance of debt	23, 25	86,244	105,316
Payment of debt transaction costs	23	–	(8,830)
Prepayment penalties related to refinancing	23	–	(23,186)
Repayment of borrowings	23, 24, 25	(7,850)	(284,018)
Proceeds from the issuance of shares	21	241	342,607
Payment of transaction costs related to issuance of shares	21	–	(8,526)
Other		939	62
Net cash flows from financing activities		79,574	123,425
Net increase in cash and cash equivalents		(17,763)	105,066
Cash and cash equivalents at January 1		172,558	54,610
Effect of exchange rate fluctuations on cash held		(11,322)	12,882
Cash and cash equivalents at December 31	20	143,473	172,558

The notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1. Reporting entity

The consolidated financial statements of AMG Advanced Metallurgical Group N.V. (herein referred to as " the Company", "AMG NV" or "AMG") for the year ended December 31, 2008 were authorized for issuance in accordance with a resolution of the Supervisory Board on March 30, 2009.

AMG is domiciled in the Netherlands. The address of the Company's registered office is WTC Amsterdam, Toren C, Strawinskylaan 1343, 1077 XX Amsterdam. The consolidated financial statements of the Company as at and for the year ended December 31, 2008 comprise the Company and the companies that comprise its subsidiaries (together referred to as the "Group") and the Company's interest in associates and jointly controlled entities.

AMG was incorporated in the Netherlands as a public limited liability company on November 21, 2006 by Safeguard International Fund ("Safeguard") and did not have ownership interest in any company at that time. It is comprised of a group of companies that were contributed to the Company by Safeguard in March 2007. In July 2007, the Company completed an initial public offering ("IPO") of 9,333,409 shares, which are listed on Euronext, Amsterdam the Netherlands. Refer to note 21 for additional information.

AMG is organized under four reportable segments: Advanced Materials, Engineering Systems, Timminco and Graphit Kropfmühl. The subsidiaries that make up these four operating segments are primarily located in Europe, North America and South America. The Advanced Materials segment manufactures and sells high-quality specialty metals, alloys and metallic chemicals which are essential to the production of high-performance aluminum and titanium alloys, superalloys, steel and certain non-metallic materials for various applications in the construction, medical, aerospace, energy, transportation, petrochemical processing and telecommunications industries (see note 4). The Engineering Systems segment designs, engineers and produces advanced vacuum furnace systems and operates vacuum heat treatment facilities. It sells vacuum furnace systems to customers in the aerospace, solar, energy, automotive, electronics, ceramics and specialty steel industries. The Group also provides vacuum heat services on a tolling basis to customers through its "Own & Operate" facilities equipped with vacuum heat treatment furnaces. Timminco's segment produces: silicon metal, including solar grade silicon, which improves conductivity, provides corrosion resistance and increases harness for the electronic, solar-photovoltaic, chemical and aluminum industries; and magnesium alloys that provide corrosion protection and weight reduction to durable and leisure goods and construction. Graphit Kropfmühl's segment extracts, processes and refines natural crystalline graphite for a wide range of energy saving industrial applications; and manufactures metallurgical silicon used in the chemical industry as a basic element for silicone chemistry, microelectronics and solar energy.

These financial statements represent the consolidated financial statements of the Group. These consolidated financial statements as of December 31, 2008 present the consolidated financial position, results of operations and cash flows of the Company and its subsidiaries. Since the Group was created by transactions under common control, the pooling of interests method was applied for preparation of the 2007 consolidated financial statements.

The parent company income statement is being prepared in accordance with part 9, Book 2, article 402 of the Netherlands Civil Code. Certain lines in the prior year comparative information in the consolidated financial statements have also been restated to reflect reclassifications which we feel provide a more accurate presentation of our results. The primary change has been a reclassification of an investment that had been classified as an associate at December 31, 2007. Since the Company has no significant influence over this 19%-owned entity, it is now properly shown in other assets for December 31, 2008 and the comparative figures have also been adjusted to reflect this change.

The consolidated financial statements of the Company include the accounts of all entities when a direct or indirect controlling interest exists through voting rights or other contractual rights at the balance sheet dates. The following table includes all entities in which AMG has any ownership interest.

Name	Country of Incorporation	Percentage Held (Directly or Indirectly) by Company December 31, 2008	Percentage Held (Directly or Indirectly) by Company December 31, 2007
ABS Apparate-und Behälterbau Staßfurt GmbH	Germany	24.96	24.96
ALD Holcroft Vacuum Technologies Co.	United States	50	50
ALD Lindgren Inc.	Canada	100	100
ALD Industrie-und Montagepark Staaken GmbH	Germany	51	51
ALD Own & Operate GmbH	Germany	100	100
ALD Technologies Polska S.z.o.o	Poland	100	100
ALD Thermal Treatment, Inc.	United States	100	100
ALD Thermo Technologies Far East Co., Ltd.	Japan	100	100
ALD Tratamientos Termicos S.A.	Mexico	100	100
ALD Vacuum Technologies GmbH	Germany	100	100
ALD Vacuum Technologies Inc.	United States	100	100
ALD Vacuum Technologies Ltd.	United Kingdom	100	100
ALD Vakuumnyje Technologii OOO	Russia	100	100
Alpoco Developments Limited	United Kingdom	100	100
AMG Advanced Metallurgical Group Investment BV	Netherlands	100	–
AMG Coating Technologies GmbH	Germany	100	100
AMG DLC Coating GmbH	Germany	50	50
AMG Invest GmbH	Germany	100	–
Aurora Partnership	United States	50.34	50.54
Bécancour Silicon Inc.	Canada	50.34	50.54
Benda-Lutz-Alpoco Sp.z o.o.	Poland	51	51
Bogala Graphite Lanka Ltd.	Sri Lanka	79.52	–
Bostlan	Spain	25	25
Branwell Graphite Ltd.	United Kingdom	79.52	–
Castle Crushing Limited	United Kingdom	100	100
Companhia Industrial Fluminense	Brazil	100	100
Korin Grundstücksgesellschaft GmbH & Co. Projekt 30 KG	Germany	94.9	94.9
Fundo Holdings AS*	Norway	50.34	50.54
Fundo Wheels A.S.	Norway	50.34	50.54
Edelgraphit GmbH	Germany	79.52	–
EsteR-Technologie GmbH	Germany	50.2	50.2
EsteR-Separation GmbH	Germany	30.1	30.1
FNE Forschungsinstitut für Nichteisen-Metalle Freiberg GmbH	Germany	100	100
Fremat GmbH & Co. KG	Germany	100	100
Zentrum für Material- und Umwelttechnik GmbH	Germany	100	100
Furnaces Nuclear Applications Grenoble S.A.	France	100	50
GfE Gesellschaft für Elektrometallurgie mbH	Germany	100	100
GfE Materials Technology	United States	100	100
GfE Metalle und Materialien GmbH	Germany	100	100
GfE Unterstützungskasse GmbH	Germany	100	100
G t Alloys	Germany	100	100
Graphit Kropfmühl AG	Germany	79.52	–
Graphite Tỳn spol. s r.o.	Czech Republic	79.52	–
Graphitwerk Kropfmühl Beteiligungs GmbH	Germany	79.52	–
Heidenreich and Harbeck AG	Germany	19.01	19.01
H.M.I. Limited	United Kingdom	100	100
Industrial Adhesives Limited	Canada	50.34	50.54
London & Scandinavian Metallurgical Co Limited	United Kingdom	100	100
LSM (Jiaxing) Co	China	100	–
Metal Alloys (South Wales) Limited	United Kingdom	100	100
Metalloys Limited (dormant)	United Kingdom	100	100
Metallurg Delaware Holding Company	United States	100	100
Metallurg Europe Limited	United Kingdom	100	100
Metallurg European Holdings LLC	United States	100	–

Name	Country of Incorporation	Percentage Held (Directly or Indirectly) by Company December 31, 2008	Percentage Held (Directly or Indirectly) by Company December 31, 2007
Metallurg Holdings Corporation	United States	100	100
Metallurg Holdings Inc.	United States	100	100
Metallurg, Inc.	United States	100	100
Metallurg International Holdings LLC	United States	100	–
Metallurg Mexico	Mexico	100	100
Metallurg Servicios	Mexico	100	100
Metallurg Vanadium Corporation	United States	100	100
Mutual Sources Ltd.	China	79.52	–
M. & A. Powders Limited (dormant)	United Kingdom	100	100
NorWheels AS*	Norway	50.34	50.54
Pertus Zwoelfte GmbH	Germany	100	100
Produits Chimiques de Lucette S.A	France	100	100
Qingdao Kropfmühl l Graphite Co., Ltd.	China	79.52	–
Qingdao Kropfmühl Trading Co., Ltd.	China	79.52	–
RW silicium GmbH	Germany	79.52	–
S.A. Vickers Limited (dormant)	United Kingdom	100	100
Share Investment Pvt. Ltd.	Sri Lanka	79.52	–
Shieldalloy Metallurgical Corporation	United States	100	100
Silmag DA	Norway	50	–
Société Industrielle et Chimique de l'Aisne	France	100	100
Sudamin France S.A.S	France	100	100
Sudamin Holdings S.A.	Belgium	100	100
Sudamin IT S.A.	France	100	–
Sudamin S.A.	Belgium	100	100
Technologie-und Gründer-zentrum GmbH	Germany	2.5	2.5
The Aluminium Powder Company Limited	United Kingdom	100	100
Timminco Adhesives Corporation	United States	50.34	50.54
Timminco Colorado Corporation	United States	50.34	50.54
Timminco Corporation	United States	50.34	50.54
Timminco de Mexico S.A. de CV	Mexico	50.34	50.54
Timminco Holdings Corporation	United States	50.34	50.54
Timminco Limited	Canada	50.34	50.54
Timminco Properties Inc.	United States	50.34	50.54
Timminco Pty Limited	Australia	50.34	50.54
Timminco S.A.	Switzerland	50.34	50.54
Timminco Technologies Corporation	United States	50.34	50.54
VACUHEAT GmbH	Germany	100	100
VACUHEAT Verwaltungs GmbH	Germany	100	100
Zimbabwe German Graphite Mines Pvt. Ltd.	Zimbabwe	79.52	–

* Fundo Holdings AS and Nor-Wheels AS are 45.3% owned by Timminco, of which the Company owns 50.34%. Therefore, the Company indirectly holds 22.8% of these companies. Bogala Graphite is owned by Graphit Kropfmühl, of which the Company owns 79.52%. Therefore, the Company indirectly holds 70.2% of this company

2. Basis of preparation

(a) Statement of compliance

EU law (IAS Regulation EC 1606/2002) requires that the annual Consolidated Financial Statements of the Company for the year ending December 31, 2008 be prepared in accordance with accounting standards adopted and endorsed by the European Union ("EU") further to the IAS Regulation (EC 1606/2002) (further referred to as "IFRS, as endorsed by the EU").

The consolidated financial statements of AMG NV and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as of December 31, 2008 as adopted by the EU.

All amounts included in the consolidated financial statements and notes are presented in US Dollars and rounded to the nearest Dollar in 1,000's except for share amounts and where otherwise indicated.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and financial instruments held for trading, which were measured at fair value. The carrying value of recognized assets and liabilities that are hedged items in fair value hedges that would otherwise be carried at cost, are adjusted to record changes in the fair value attributable to the risks that are being hedged.

The methods used to measure fair values are discussed further in note 3.

(c) Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note 6 – furnace construction contract revenue
- Note 10 – deferred tax assets
- Note 13 – measurement of the recoverable amounts of assets and cash-generating units
- Note 26 – measurement of defined benefit obligations
- Note 27 – measurement of share-based payments
- Note 28 – provisions
- Note 34 – valuation of financial instruments

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below or in the relevant note:

Furnace construction contract revenue

Revenue related to furnace construction contracts is recorded based on the estimated percentage of completion of contracts as determined by management. Significant management judgement is required to determine this percentage of completion. Total percentage of completion revenue for the year ended December 31, 2008 was $312,454 (2007: $264,392).

Utilization of tax losses

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. The carrying value of recognized tax losses at December 31, 2008 was $9,718 (2007: $17,370). There are significant unrecognized tax losses as described in more detail in note 10.

Measurement of the recoverable amounts of assets and cash-generating units

(i) Patents with indefinite lives

Throughout the past several years, the Timminco operation has acquired patents related to its silicon manufacturing process which were deemed to have indefinite lives. During the year ended December 31, 2007, management deemed these assets to have a remaining life of 10 years and began amortization of these patents.

(ii) Goodwill

The determination of whether goodwill is impaired requires an estimate of the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill has been allocated. The recoverable amount is defined as the higher of a cash-generating unit's fair value less costs to sell and its value in use. For Advanced Materials, ALD, Timminco and Graphit Kropfmühl, the recoverable amount was determined as the value in use. The value in use requires the entity to estimate the future cash flows expected to arise from the cash-generating units or group of cash-generating units and to discount these cash flows with a risk adjusted discount rate. The carrying amount of goodwill at December 31, 2008 was $37,108 (2007: $39,980).

Measurement of defined benefit obligations

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The net employee liability at December 31, 2008 is $103,176 (2007: $102,809).

Measurement of share-based payments

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs into the valuation model including the expected life of the option, volatility, and dividend yield and making assumptions about them. The assumptions and model used in determining the fair value of our share-based payments are disclosed in note 27.

Provisions

Provisions have been recorded with respect to environmental, restructuring, warranties and other liabilities. These provisions require management's judgement with respect to the amounts recorded and the expected timing of payments. Amounts may change due to changes in circumstances surrounding environmental and restructuring liabilities or other liabilities. Timing of payments can change with respect to environmental, restructuring or warranties as the execution of plans may require more or less time than anticipated. As at December 31, 2008, the provisions balance was $35,186 (2007: $24,967).

Valuation of financial instruments

Fair value of non-derivative financial instruments, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. Management's judgement is used to determine the appropriate discount rates used for these calculations.

3. Significant accounting policies

(a) Basis of consolidation

(i) Consolidation Principles

The consolidated financial statements of the Company have been prepared on a historical cost basis, except for derivative financial instruments and financial instruments held for trading which have been measured at fair value. The carrying value of recognized assets and liabilities that are hedged items in fair value hedges that would otherwise be carried at cost, are adjusted to record changes in the fair value attributable to the risks that are being hedged.

The consolidated financial statements of the Company include the accounts of all entities when a direct or indirect controlling interest exists through voting rights or other contractual rights at the balance sheet dates and therefore the results of operations and cash flows of the subsidiaries of the Company are presented on a consolidated basis under the control of the Company.

All intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions, are eliminated in full.

Net income is allocated to the shareholders of the Company and minority interests. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized in goodwill. The minority interests are disclosed separately in the consolidated statements of income and in the equity section of the consolidated balance sheets.

(ii) Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Company's share of the income and expenses of equity accounted investees from the date that significant influence or joint control commences until the date it ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee. Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. See note 14 for further details.

(iii) Joint Ventures

A joint venture is a contractual arrangement where two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Group recognizes its interest in the joint venture under the equity method. The consolidated financial statements include the Company's share of the income and expenses of equity accounted investees from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party.

(b) Foreign currency

(i) Functional and presentation currency

The local currency is the functional currency for the Company's significant operations outside the US, except certain operations in the United Kingdom and Brazil, where the US Dollar is used as the functional currency. The determination of functional currency is based on appropriate economic and management indicators.

These consolidated financial statements are presented in US Dollars, which is the Company's functional and presentation currency.

All financial information is presented in US Dollars and has been rounded to the nearest thousand, unless otherwise stated.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to US Dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to US Dollars at the average exchange rates calculated at the reporting date.

Foreign currency differences are recognized directly in equity. Since January 1, 2005, the Company's date of transition to IFRS, such differences have been recognized in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

The Company has no foreign operations in hyperinflationary economies. The Company does not hedge its net investments in foreign operations.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, restricted cash, short term investments, loans and borrowings, related party debt, short term bank debt, unearned revenue and trade and other payables. The Company does not have any non-derivative financial instruments which are classified as held-to-maturity investments or available-for-sale financial assets.

Trade and other receivables are recorded at the invoiced amount and do not bear interest. The Company provides an allowance for impairment for known and estimated potential losses arising from sales to customers based on a periodic review of these accounts. Impaired debts are derecognized when it is probable that they will not be recovered.

Cash and cash equivalents comprise cash balances and call deposits with maturities of 90 days or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank drafts.

Restricted cash, which in whole or in part is restricted for specific purposes including guarantees, is included in a separate line item of the balance sheet. It is included in non-current assets.

The investments in associates of the Company are accounted for using the equity method of accounting. An associate is an entity in which the Company has significant influence and which is not a subsidiary. Under the equity method, investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of an associate, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

Investments in equity instruments whose fair value cannot be reliably measured and must be settled by delivery of those equity instruments are measured at cost less any impairment. If a reliable fair value measurement becomes available, the investment will be remeasured at that fair value and the gain or loss reported in profit and loss.

Loans and borrowings are initially recorded at the fair value of the proceeds received less direct issuance costs. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Trade and other payables and unearned revenue are accounted for at cost.

Fair value of non-derivative liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

(ii) Derivative financial instruments

The Company views derivative instruments as risk management tools and does not use them for trading or speculative purposes. The Company uses derivative instruments, primarily forward contracts, swaps and caps, to manage certain foreign currency, commodity price and interest rate exposures. Such derivative financial instruments, except for contracts to buy or sell a business at a future date, are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value with gains or losses that do not qualify for hedge accounting taken directly to profit or loss. Such derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purpose of hedge accounting, all hedges are classified as:

- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk).

At the inception of a cash flow hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedge effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial periods for which they were designated.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement.

For fair value hedges, the change in value of the hedging derivative is recognized immediately in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recorded in the income statement.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate caps and swaps are determined by reference to market values for similar instruments. The fair value of forward commodity contracts is calculated by reference to current forward prices on the London Metals Exchange (LME) for commodity contracts with similar maturity profiles.

If the hedging instrument expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecast transaction or firm commitment occurs. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the income statement.

The Company enters into certain derivatives that economically hedge monetary assets and liabilities that do not qualify for hedge accounting. Any gains or losses arising from changes in fair value of derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement. They are categorized as financial assets or financial liabilities at fair value through profit or loss.

(d) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Company retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- The Company retains the right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement takes the form of a guarantee over the transferred asset and is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

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

Costs associated with developing mine reserves are recognized in property, plant and equipment when they are established as commercially viable. These costs can include amounts that were previously recognized as intangible assets during the evaluation phase of the mine development. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment and the costs of major inspections are recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is generally recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and construction in progress are not depreciated. Mine expansion is depreciated on a units of production basis and is discussed below.

The estimated useful lives for the current and comparative periods are as follows:

- buildings and leasehold improvements 10–30 years
- machinery 2–13 years
- office furniture and equipment 3–13 years
- transportation equipment 3–5 years
- finance leases 3–15 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

The depreciation of mining costs is linked to the production levels from the mine. Therefore, these assets are amortized on units of production basis.

Certain subsidiaries have deferred charges representing direct costs for costs incurred for major overhauls of furnaces. These charges are amortized from 12 to 122 months depending on the estimated useful life of the overhaul.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

Borrowing costs are not capitalised and are expensed as incurred.

(f) Business Combinations and Goodwill

Goodwill (negative goodwill) may arise on the acquisition of subsidiaries, associates and joint ventures.

Acquisitions on or after January 1, 2005

For acquisitions on or after January 1, 2005, goodwill represents the excess of the cost of the acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

Fair value of identifiable assets is determined as follows:

(i) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment and fixtures is based on the quoted market prices for similar items.

(ii) Intangible assets

The fair value of intangible assets acquired in a business combination is the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction based on active markets or the discounted cash flows generated by the respective asset.

(iii) Inventory

The fair value of work in process and finished goods inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

(iv) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. For short term trade and other receivables, discounting is not required.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(g) Intangible assets

(i) Patents and technology

The Company has patents for certain manufacturing processes. The patents are being amortized over a life of 10 years.

(ii) Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. These intangible assets have useful lives of 3 – 5 years and rights of use that have lives of 5 years.

(h) Leased assets

Leases for which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The Company also enters into operating leases under which the leased assets are not recognized on the Company's balance sheet. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined based on the average cost and specific identification methods, and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of finished goods inventory and work in progress, cost includes materials and labor as well as an appropriate share of production overhead based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and necessary selling expenses. The company estimates the net realizable value of its inventories at least quarterly and adjusts the carrying amount of these inventories as necessary.

Cost of inventories includes the transfer from equity of gains and losses on qualifying cash flow hedges in respect of purchases of raw materials.

(j) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit or group of cash-generating units is the greater of its value in use and its fair value less costs to sell. In testing goodwill for impairment, the value in use has been determined by the Company for the cash-generating unit or group of cash-generating units to which the goodwill has been assigned. However if tangible assets with a definite remaining useful life have to be tested for impairment and the value in use is below the corresponding carrying amount, a fair value less costs to sell methodology is utilized. Fair value differs from value in use. Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of factors that may be specific to the entity and not applicable to entities in general. Thus, in assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(iii) Associates

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss of the Company's investment in its associates. The Company determines at each balance sheet date whether there is any objective evidence that an investment in associate is impaired. If this is the case, the Company calculates the amount of impairment as being the difference between the higher of fair value less cost to sell and value in use of the associate and its carrying amount and recognizes the amount in the income statement.

(k) Employee benefits

(i) Defined contribution plans

Certain subsidiaries provide defined contribution pension plans for their employees. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when they are due.

(ii) Defined benefit plans

The Company maintains defined benefit plans for its employees in the US, Canada, Germany, France, and the United Kingdom.

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is based on the appropriate corporate bond yields for the maturity dates of and country where the obligation exists. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to creditors of the Company nor can they be paid directly to the Company. Fair value is based on market price information and in the case of quoted securities, it is the published bid price. The value if any plan asset recognized is restricted to the sum of any past service costs not yet recognized and the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

All actuarial gains and losses as at January 1, 2005, the date of transition to IFRS, were recognized. In respect of actuarial gains and losses that arise subsequent to January 1, 2005 in calculating the Company's obligation in respect of a plan, to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognized in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

The Company also has supplemental executive retirement plans (the "SERPs") with three officers of the Company (see note 26).

(iii) Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

AMG and Timminco have stock-based compensation plans, which are described in note 26.

The cost of equity-settled transactions, related to these stock-based compensation plans, is measured by reference to the fair value at the date on which they are granted. The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield, and other assumptions. The assumptions and models used are described in note 27.

The cost of these equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees (or other benefactors) become fully entitled to the award (the "vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement charge for the period represents the movement in cumulative expense recognized as at the beginning and end of the period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are provided in note 22).

(v) Deferred share unit plan

Timminco has implemented a deferred share unit plan (DSUP) for members of the Board of Directors. Under the DSUP, each director may elect to receive all or a percentage of his or her annual compensation in the form of notional common shares of the Company called deferred share units ("DSUs"). The issue price of each DSU is equal to the weighted average share price at which common shares of the Company trade on the Toronto Stock Exchange during the 10-day period prior to the last day of the quarter in which the DSU is issued. A Director must elect to participate or change his or her participation in the DSUP prior to the beginning of a fiscal quarter. The DSU account of each Director includes the value of dividends, if any, as if reinvested in additional DSUs. The Director is not permitted to convert DSUs into cash until retirement from the Board. The value of the DSUs, when converted to cash, will be equivalent to the market value of the common shares at the time the conversion takes place. The value of the outstanding DSUs as at December 31, 2008, was $221 (2007 – nil)

(l) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(i) Environmental remediation costs and recoveries

Certain subsidiaries of the Company are currently faced with a number of environmental issues relating to environmental cleanup requirements, largely resulting from historical solid and hazardous waste handling and disposal practices at their facilities. In accordance with the Company's environmental policy and applicable legal requirements, provisions associated with environmental remediation obligations are accrued when such losses are deemed probable and reasonably estimable. Such accruals generally are recognized no later than the completion of the remedial feasibility study and are adjusted as further information develops or circumstances change.

Provision is made for close down, restoration and for environmental rehabilitation costs in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the balance sheet date. The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is included in interest expense. The provision is reviewed on an annual basis for changes to obligations, legislation or discount rates that effect change in cost estimates or life of operations.

The subsidiaries of the Company have been required, in certain instances, to create trust funds for the environmental rehabilitation. Once established, the subsidiaries have a 100% interest in these funds. Rehabilitation and restoration trust funds holding monies committed for use in satisfying environmental obligations are included on a discounted basis within other non-current assets on the balance sheet, only to the extent that a liability exists for these obligations.

Environmental expense recoveries are generally recognized in income upon final settlement with the Company's insurance carriers.

(ii) Restructuring

A provision for restructuring is recognized when the Company or a subsidiary of the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Provisions are not made for future operating costs.

(iii) Warranty

A provision for warranty is recognized when the Company or a subsidiary of the Company has determined that it has a basis for recording a warranty based on historical returns for warranty work.

(m) Convertible Debt

A subsidiary of the Company has convertible debt issued to a related party. On initial recognition of the compound instrument, the various components of the instrument are identified and the fair value of the liability and equity components of the debt are determined. The equity portion of the debt is credited directly to equity by the subsidiary of the Company. The Company considers this as minority interest at the Group level. Thereafter, the liability component is measured at amortized cost using the effective interest method.

(n) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Revenue from product sales to the Company's customers is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfer of risks and rewards usually occurs when title and risk of loss pass to the customer. In the case of export sales, title may not pass until the product reaches a foreign port. In certain instances, the Company arranges sales for which the supplier invoices the customer directly. In such cases, the Company receives commission income, in its role as agent, which is recognized when the supplier passes title to the customer. The Company assumes no significant credit or other risk with such transactions.

(ii) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Furnace construction contracts

Furnace construction contracts are reported using the percentage of completion (POC) method. Cumulative work done to date, including the Company's share of profit, is reported on a pro rata basis according to the percentage completed. The percentage of completion is measured as the ratio of contract costs incurred for work performed so far to total contract costs (cost-to-cost method). Contracts are reported in trade receivables and advance payments, as "gross amount due to / from customers for/ from contract work (POC)". If cumulative work done to date (contract costs plus contract net profit) of contracts in progress exceeds progress payments received, the difference is recognized as an asset and included in trade and other receivables in the consolidated balance sheet. If the net amount after deduction of progress payments received is negative, the difference is recognized as a liability and included in advance payments in the consolidated balance sheet. Anticipated losses on specific contracts are estimated taking account of all identifiable risks and are accounted for using the POC method. Contract income is recognized according to the income stipulated in the contract and/or any change orders confirmed in writing by the client.

(iv) Commissions

When the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Company.

(o) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred. Development costs are expensed until the following occur: technical feasibility; both the intention and ability to complete for internal use or as an external sale; probable generation of future economic benefits; marketability existence; and the reliable measurements of expenditures accumulated during development. Research and development costs are shown within selling, general and administrative expenses in the consolidated income statement.

(p) Finance income and expenses

Finance income comprises interest income on funds invested, interest recognized on loans to related parties, interest recognized on notes receivable, foreign currency gains and derivative income gains on hedging instruments. Interest income is recognized as it is accrued, using the effective interest method.

Finance expenses comprise interest expense on borrowings, finance charges on finance leases, the discount on provisions, foreign currency losses and losses on hedging instruments, and any loss recorded on debt extinguishment. All borrowing costs are recognized in profit or loss using the effective interest method.

(q) Government grants

Certain subsidiaries receive government grants related to early retirement provisions and workforce creation. Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Since the grants relate to expense items, they are recognized as income over the period necessary to match the grant on a systematic basis to the costs for which they are intended to compensate.

(r) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. These amounts are calculated using tax rates enacted or substantively enacted at the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes at the balance sheet date. Deferred tax is not recognized for the following temporary differences:

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credit and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credit and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

(s) Segment reporting

IFRS 8 defines an operating segment as: a component of an entity (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operation decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available.

(t) New and amended standards

The following new standards, amendments to standards and interpretations are effective for the year ended December 31, 2008. If applicable, these standards and interpretations have been applied in preparing these consolidated financial statements:

- IFRS 8 *Operating segments* was issued in November 2006 and is effective for periods on or after January 1, 2009. The Company early adopted this standard, in the year ended December 31, 2007, which requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

- IFRS 2 *Share-based Payments* clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The Company early adopted this amendment as of January 1, 2008. It did not have an impact on the financial position or performance of the Company as no events occurred that this interpretation relates to.
- IFRIC 11 *IFRS 2: Company and Treasury shares transactions* clarifies IFRS 2 in stating whether cash-settled or equity-settled accounting treatment should be used for certain share-based arrangements. Adoption of IFRIC 11 did not have any impact on the consolidated financial statements.
- IFRIC 12 *Service Concession Arrangements* gives guidance on the accounting by operators for public-to-private service concession arrangements. Adoption of IFRIC 12 did not have any impact on the consolidated financial statements.
- IFRIC 14/ IAS 19 *Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction* provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 *Employee Benefits*. The majority of the Company's defined benefit plans have been in a deficit. Therefore, the adoption of IFRIC 14 had no material impact on the consolidated financial statements.
- IFRIC *8 Scope of IFRS 2 Share-based Payments* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. It is to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. Adoption of IFRIC 8 did not have any impact on the consolidated financial statements.

(u) Future changes in accounting policies

The following new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2008. They may, however, be implemented in future years.

- IFRS 1 and IAS 27 *First-time Adoption of International Financial Reporting Standards and Consolidated* and *Separate Financial Statements* allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statement. Revisions are effective January 1, 2009 and should be applied prospectively.
- IFRS 3R *Business Combinations* and IAS 27R *Consolidated and Separate Financial Statements* impacts the amount of goodwill recognized in a business combination along with the reported results in the period that an acquisition occurs and the future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction and therefore neither goodwill nor any gains/losses will be recognized. The amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. These changes will affect future acquisitions or loss of control and transactions with minority interests and are effective for business combinations occurring on or after July 1, 2009.
- IAS 1 *Revised Presentation of Financial Statements* separates owner and non-owner changes in equity and is effective on or after January 1, 2009. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. The revision also introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company is still evaluating whether it will have one or two statements.
- IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* are effective beginning January 1, 2009 and provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The Company has not issued such instruments to date and does not believe it will be impacted in the future.
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Company has concluded that the amendment will have no impact on the financial position or performance as the Company has not entered into any such hedges. The effective date is on or after July 1, 2009.

- IAS 23 (revised) *Borrowing Costs* addresses the accounting for the capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after January 1, 2009. The Company is in the process of evaluating the potential impact of this revision.
- IFRIC 13 *Customer Loyalty Programmes* requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's consolidated financial statements as no such transactions currently exist.
- IFRIC 15 *Agreement for the Construction of Real Estate* becomes effective beginning on or after January 1, 2009 and has to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statements of the Company.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* is to be applied prospectively on or after October 1, 2008. It provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group is currently assessing which accounting policy to adopt for the recycling on the net investment.
- Improvement to IFRSs. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.
  - IFRS 7 *Financial Instruments: Disclosures* – removes the reference to 'total interest income' as a component of finance costs
  - IAS 8 *Accounting Policies, Change in Accounting Estimates and Errors*: Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
  - IAS 10 *Events after the Reporting Date* clarify that dividends declared after the end of the reporting period are not obligations
  - IAS 16 *Property, Plant and Equipment* held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
  - IAS 18 *Revenue* replaces the term 'direct costs' with 'transaction costs' as defined in IAS 39
  - IAS 19 *Employee Benefits* revised the definition of 'past service costs,' 'return on plan assets,' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.
  - IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*: Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant income.
  - IAS 27 *Consolidated and Separate Financial Statements* states that when a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
  - IAS 29 *Financial Reporting in Hyperinflationary Economies*: revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.
  - IAS 34 *Interim Financial Reporting* Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
  - IAS 39 *Financial instruments: Recognition and Measurement* states that changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. It removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge and it requires the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

- IAS 40 *Investment Property*'s revised the scope such that property under construction or development for future use as an investment property is classified as investment property. If the fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, it revised the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.
- IAS 41 *Agriculture* removed: the reference to the use of a pre-tax discount rate to determine fair value; and the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. It also replaced the term 'point-of sale costs' with 'costs to sell.'

4. Segment reporting

For management purposes, the Company is organized under four separate operating segments: Advanced Materials, Engineering Systems, Timminco and Graphit Kropfmühl. Advanced Materials produces specialty metals, alloys and chemicals and has major production facilities in the UK, US, Germany, Brazil, and France. The Engineering Systems division provides specialty engineering service and has major production facilities that are located in Germany, France and North America. Timminco is primarily a silicon manufacturing company with major operating plants primarily in North America. Advanced Materials, Engineering Systems and Timminco represented the three operating segments reported for the year ended December 31, 2007. During 2008, AMG acquired 79.52% of Graphit Kropfmühl AG ("GK"). The remainder of GK is publicly traded in Germany. Due to the management reporting structure and its product offerings, Graphit Kropfmühl is treated as a separate segment, the fourth operating segment within AMG. GK produces specialty graphite and silicon metal and is located mainly in Germany and parts of Asia and Africa.

The management reporting format is determined by operating segments as the operating results for each segment are organized and managed separately according to the nature of the products and services provided. Each segment represents a strategic business unit that offers different products and serves different markets.

Advanced Materials – This division manufactures and sells high-quality specialty metals, alloys and metallic chemicals which are essential to the production of high-performance aluminum and titanium alloys, superalloys, steel and certain non-metallic materials for various applications in the construction, medical, aerospace, energy, transportation, petrochemical processing and telecommunications industries.

Engineering Systems – This division is the leading global supplier of processes and services in the field of vacuum process technology. Core specialties of the Engineering Systems division are the development of processes and the design of plants, which are made to concept by partners in the supplier industry. This division serves a demanding group of international customers with its branches in North America, Japan and Britain, and more than 70 representative offices around the world.

Timminco Limited ("Timminco") – This division's operations are primarily in Bécancour, Quebec. Its production consists of two major items: silicon metal including solar grade silicon which improves conductivity, provides corrosion resistance and increases harness for the electronic, solar-photovoltaic, chemical and aluminum industries; and magnesium alloys that provide corrosion protection and weight reduction to durable and leisure goods and to construction. Timminco is a publicly traded company on the Toronto Stock Exchange.

Graphit Kropfmühl ("GK") – This division's operations are mainly in Germany with its own secured and controlled raw material resources for graphite in Asia, Africa and Europe. Graphit Kropfmühl is a specialist in the production of silicon metal and the extraction, processing and refining of natural crystalline graphite for a wide range of energy saving industrial applications. GK manufactures metallurgical silicon, which is used either in the chemical industry as a basic element for silicone chemistry, microelectronics, and solar energy, or as an alloying metal in aluminum foundries. GK's graphite products are most noted for their electric and thermal conductivity, lubrication properties, high resistance to temperature and oxidation. Graphit Kropfmühl AG is a majority controlled, publicly listed subsidiary in Germany.

Within Advanced Materials, five operating units are aggregated to create the reportable segment. Engineering Systems, Timminco and GK each have two operating units and within each group, those two operating units are aggregated to create one reportable segment. AMG Headquarters costs and assets are allocated sixty percent to Advanced Materials and forty percent to Engineering Systems in 2008 and 2007 based on an estimation of services provided to the segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Year ended December 31, 2008	Advanced Materials	Engineering Systems	Timminco	GK	Other and Eliminations	Total
Revenue						
Revenue from external customers	756,726	435,462	237,824	87,932		1,517,944
Intersegment revenue	448	2,383	671	–	(3,502)	
Total revenue	757,174	437,845	238,495	87,932	(3,502)	1,517,944
Segment Results						
Operating Profit	49,293	83,495	(3,650)	(53,919)		75,219
Interest income	10,623	10,898	1,369	306	(15,413)	7,783
Interest expense	13,097	17,742	1,514	4,650	(15,413)	21,590
Share of (loss) profit of associates	544	3	(11,131)	–	–	(10,584)
Profit (loss) before income tax	44,213	74,596	(16,184)	(58,128)		44,497
Income tax expense (benefit)	16,750	32,270	4,978	(12,059)	–	41,939
Profit for period	27,463	42,326	(21,162)	(46,069)		2,558
Balance Sheet						
Segment assets	542,682	423,289	247,943	99,060	(198,650)	1,114,324
Investment in associates	8,422	7,278	–	–	–	15,700
Total assets	551,104	430,567	247,943	99,060	(198,650)	1,130,024
Segment liabilities	246,220	374,741	141,990	115,550	(198,650)	679,851
Employee benefits	44,480	28,522	18,244	11,930	–	103,176
Provisions	9,255	16,908	6,477	2,546	–	35,186
Total liabilities	299,955	420,171	166,711	130,026	(198,650)	818,213
Other Information						
Capital expenditures for expansion – Tangible Assets	24,432	26,671	76,903	5,214	–	133,220
Capital expenditures for maintenance – Tangible Assets	7,335	2,303	12,958	1,726	–	24,322
Capital expenditures – Intangible Assets	–	674	–	74	–	748
Intangible assets acquired	–	1,277	–	16,874	–	18,151
Depreciation and Amortization	11,572	6,704	6,443	6,601	–	31,320
Asset impairments	–	1,073	4,656	46,046	–	51,775

Year Ended December 31, 2007	Advanced Materials	Engineering Systems	Timminco	Other and Eliminations	Total
Revenue					
Revenue from external customers	688,039	312,147	155,473	–	1,155,659
Intersegment revenue	–	284	–	(284)	–
Total revenue	688,039	312,431	155,473	(284)	1,155,659
Segment Result					
Operating Profit	35,877	62,227	(13,935)	–	84,169
Interest income	4,947	8,068	–	(6,061)	6,954
Interest expense	24,129	7,444	2,511	(6,061)	28,023
Share of (loss) profit of associates	323	18	(3,554)	–	(3,213)
Profit (loss) before income tax	(16,215)	62,553	(17,528)	–	28,810
Goodwill adjustment relating to deferred tax asset			1,386		1,386
Income tax expense (benefit)	4,923	19,380	(4,981)	–	19,322
Profit for period	(21,138)	43,173	(13,933)	–	8,102
Balance Sheet					
Segment assets	532,236	407,415	178,343	(232,733)	885,261
Investment in associates	1,852	2,633	6,801	–	11,286
Total assets	534,088	410,048	185,144	(232,733)	896,547
Segment liabilities	245,795	401,791	44,121	(232,733)	458,974
Employee benefits	56,426	28,507	17,876	–	102,809
Provisions	7,607	13,568	3,792	–	24,967
Total liabilities	309,828	443,866	65,789	(232,733)	586,750
Other Information					
Capital expenditures – Tangible Assets	16,441	12,798	27,312	–	56,551
Capital expenditures – Intangible Assets	–	605	1,103	–	1,708
Intangible assets acquired	–	454	–	–	454
Depreciation and Amortization	11,112	4,407	3,114	–	18,663

* Graphit Kropfmühl was acquired in April 2008 and therefore there are no comparable numbers as of December 31, 2007.

Geographical Information

Geographical information for the Company is provided below. Revenues are based on the shipping location of the customer while non-current assets are based on the physical location of the assets.

	Year Ended December 31, 2008		Year Ended December 31, 2007	
	Revenues	Non-current Assets	Revenues	Non-current Assets
Germany	315,315	105,685	202,353	54,715
US	419,295	43,009	351,847	38,994
Canada	33,110	124,824	37,488	67,139
UK	51,261	23,258	53,034	16,617
Brazil	38,395	24,943	33,989	12,364
France	53,209	16,877	50,700	16,954
Norway	113,791	–	86,539	–
Italy	52,539	–	37,665	–
China	104,110	3,837	67,787	–
Japan	44,367	3	40,813	1
Mexico	11,672	17,782	10,613	6,462
Russia	34,259	–	22,151	–
Austria	29,573	–	11,340	–
Belgium	23,516	61	18,796	63
Other Countries	193,532	11,863	130,544	1,691
Total	1,517,944	372,142	1,155,659	215,000

Non-current assets for this purpose consist of property, plant and equipment, intangible assets and other non-current assets.

5. Acquisitions

Acquisition of Graphit Kropfmühl AG

On March 18, 2008, a wholly owned subsidiary of the Company, AMG Invest GmbH signed a share purchase agreement to acquire 62.3% interest in Graphit Kropfmühl AG ("GK") for consideration of €32.7 million. This acquisition was completed on April 22, 2008 upon receipt of regulatory approval. AMG Invest GmbH also launched a voluntary public tender offer for the remaining outstanding shares in GK at €18.25 per share, a price agreed upon with the majority of the shareholders. As at April 22, 2008, AMG Invest GmbH's total ownership of Graphit Kropfmühl was 73.8%. The voluntary public tender offer process was completed during the second quarter of 2008 and after final settlement of additional acceptances, AMG Invest GmbH owns 79.52% of the shares in GK. GK produces silicon metal and mines, processes and refines natural graphite at production sites in Europe, Asia and Africa.

The purchase price paid for the 79.52% of shares was approximately $64,016 (net of cash acquired). In addition to this, acquisition costs of approximately $2,924 have been incurred which will be accounted for as part of the purchase price.

The carrying value of identifiable assets and liabilities in thousands of US dollars at the date of acquisition were as follows:

The fair value of identifiable assets and liabilities at the date of acquisition were as follows:

	Recognized on acquisition	Previous carrying value
Property, plant and equipment	81,752	45,946
Intangible assets	16,874	10,032
Other long-term assets	386	386
Cash	1,210	1,210
Prepayments	3,433	3,433
Trade receivables	17,156	17,156
Inventories	29,872	21,228
	150,683	99,391
Trade payables	9,272	9,272
Accrued expenses and other current liabilities	5,341	5,341
Income tax payable	1,211	1,211
Debt	27,302	27,302
Provisions and government grants	2,768	6,338
Other noncurrent liabilities	13,362	13,362
Deferred tax liability	18,630	1,132
Minority interest	14,875	
	92,761	63,958
Net assets	57,922	35,433
Goodwill arising on acquisition	10,228	
Consideration, satisfied by cash	68,150	
Cash flow on acquisition:		
Net cash acquired with the subsidiary		1,210
Cash paid		68,150
Net cash outflow		66,940

From the date of consolidation, GK has reduced the profit of the Company by generating a loss attributable to shareholders of $37,268. This is inclusive of an after-tax write-down GK's fixed assets and intangible assets attributable to shareholders in the amount of $28,744.

Acquisition of Furnaces Nuclear Applications Grenoble

On October 9, 2008, the Company completed the acquisition of 100% of the shares of its nuclear joint venture, Furnaces Nuclear Applications Grenoble ("FNAG") with a payment of $3,514. FNAG designs and produces sintering systems for a number of nuclear applications. As of December 31, 2007, FNAG had been accounted for as an equity investment.

The fair value of identifiable assets and liabilities at the date of acquisition were as follows:

	Recognized on acquisition	Previous carrying value
Property, plant and equipment	45	45
Intangible assets	1,277	26
Cash	461	461
Prepayments	277	277
Inventories	806	806
	2,866	1,615
Trade payables	653	653
Debt	969	969
Deferred tax liability	386	–
	2,008	1,622
Net assets		(7)
Fair value of net assets acquired	858	
Excess fair value over consideration	2,656	
Total acquisition cost	3,514	

The total acquisition cost comprised two cash payments, totalling $3,579. The payment of $65 made in 2007 was primarily to establish the capital of the joint venture.

Net cash acquired with the subsidiary	461
Cash paid	3,514
Net cash outflow	3,053

From the date of consolidation, FNAG has contributed $454 to the profit of the Company.

The acquisitions of GK and FNAG were completed during the course of the year ended December 31, 2008. If the GK and FNAG acquisitions were completed on January 1, 2008, revenue for the Company would have been $1,563,253 and profit attributable to shareholders would have been $16,680.

Acquisition of Silmag DA

On December 18, 2008, a wholly owned subsidiary of the Company, invested $10,432 (including $118 of acquisition costs) to acquire 50% of Silmag DA. Silmag DA is a joint venture with Norsk Hydro that was established to develop a unique process to produce silica and magnesium at a low cost from olivine, a raw material abundant in Norway. Of the $10,314 invested in the new company, $3,127 will be used to purchase the technology and $7,187 is to be used to fund a pilot plant to further develop the process technology. Equal amounts will be contributed by Norsk Hydro for these investments. This joint venture is being accounted for as an equity investment.

Purchase of Land in Berlin by ALD

By a share purchase agreement dated June 13, 2007, ALD and Cello Vermögensverwaltungs- und Beteiligungsgesellschaft mbH ("Cello") acquired respectively 51% and 49%, of the shares in Monopol from CNH Baumaschinen GmbH ("CNH"), for a total purchase price of €100 (net of value added tax). CNH established Monopol as a special purpose company with a share capital of €1,000,000 and made voluntary contributions of €14,500,000 into Monopol's capital reserve, both of which were required for the share purchase agreement to become effective. Monopol has been renamed and will herein be referred to as ALD Industrie-und Montagepark Staaken ("ALD IMP").

Also on June 13, 2007, ALD (through ALD IMP) entered into a purchase agreement with CNH for a total purchase price of €100 acquiring a hereditary building right over a factory building and a multifunctional building, which the Company is using to produce solar silicon melting furnaces. Per the agreement, ALD assumed the obligations that existed at the site. These obligations include lease payments for ground rent of €396,384 per annum, which will be reduced to €248,503.20 per annum; the latter amount will be increased to €258,503.20 per annum effective January 1, 2013 and increasing by an additional €10,000 per annum every five years thereafter. The hereditary building right expires on December 31, 2038.

Per the CNH agreement, ALD IMP (or companies nominated by ALD and Cello and accepted by Berlin) is obligated by the State of Berlin to establish at least 70 permanent jobs at the site by the end of 2007 and an additional 80 by the end of 2008 maintaining these 150 permanent jobs until the end of 2009. In the event of a breach of this contract, ALD IMP is required to pay to CNH a penalty of €50,000 multiplied by the number of jobs less than 150 at the site at that time.

Under a separate service agreement, ALD IMP must continue to provide certain services needed by CNH and must lease an office and other space to CNH until December 31, 2011 and CNH has the option to extend the provision of these services and the lease for another five years.

This acquisition does not qualify for purchase accounting since operational assets were acquired rather than an existing business. Therefore, this purchase is being accounted for using government grant accounting to allocate the income of the government grant over the term of the expected personnel expenses that will be incurred. As of December 31, 2008, 156 (2007: 84) permanent jobs have been created at the site and ALD IMP has recognized $3,708 (2007: $649) of government grant income to offset the costs of those employees. An additional $4,288 was released from the government grant liability in the year ended December 31, 2008 due to a change in the estimate of liability remaining. The initial accounting for purchase and government grant created a release of $5,100 during 2007 that was recognized in connection with this acquisition (see note 5). See note 29 for further disclosure of government grants.

Acquisition of FNE

On December 3, 2007, GfE completed the acquisition of 100% of the shares of FNE Forschung-sinstitut für Nichteisen-Metalle Freiberg GmbH ("FNE") from its current family ownership. FNE has state-of-the-art production capabilities for rotatable targets, a key to large area coating requirements. GfE will strengthen its position in the growing large area coating materials market using the technological competence of FNE regarding research and development and production. The acquisition was completed in two steps in 2006 and 2007.

On June 7, 2006, GfE made a payment, valued at approximately $2,700, to purchase a 24.9% share of ownership in FNE. The purchase agreement included a call option under which GfE was entitled to purchase the remaining shares for a defined purchase price within the timeframe from January 1, 2007 through January 1, 2008. The initial payment in 2006 was recorded as an investment in associates of $1,650 and an option value of $1,078. Due to the inclusion of the call option, FNE was consolidated in the statements of the Company with a 75.1% minority interest starting on January 1, 2007. This call option was exercised on December 3, 2007 when GfE made a payment valued at approximately $4,031. The total purchase price for 100% of FNE was approximately $6,731 and a purchase price allocation was completed for the acquisition. Negative goodwill in the amount of $164 and $2,162 was recognized on this transaction in the years ended December 31, 2006 and 2007, respectively (note 7).

The fair value of identifiable assets and liabilities at the date of acquisition were as follows:

	Recognized on acquisition	Previous carrying value
Property, plant and equipment	11,685	11,685
Intangible assets	342	–
Other long-term assets	1,060	–
Cash	759	759
Prepayments	1,630	1,630
Trade receivables	1,646	1,646
Inventories	2,826	2,558
	19,948	18,278
Trade payables	6,315	6,316
Income tax payable	3	3
Debt	4,049	4,049
Deferred tax liability	103	11
Pension liability	437	437
	10,907	10,816
Net assets		7,462
Fair value of net assets acquired	9,041	
Total acquisition cost	(6,731)	
Excess fair value over consideration	2,310	
Currency impact due to timing of consolidation and payment	(148)	
Negative goodwill arising on acquisition	2,162	

The total acquisition cost comprised two cash payments, one each in 2006 and 2007, totalling $6,731.

Net cash acquired with the subsidiary	759
Cash paid	6,731
Net cash outflow	5,972

FNE contributed $2,962 from the date of consolidation to December 31, 2007 to the profit for the year of the Company.

Acquisition of ABS

On October 9, 2006, ALD GmbH made an investment of approximately $1,420 to purchase 19.9% ownership in ABS Apparaté und Behälterbau Staßfurt GmbH ("ABS") from its current ownership. ABS is a high performance apparatus engineering enterprise with experience building apparatuses, heat-transfer agents and pressure and storage vessels.

In 2007, the Company increased its ownership in this Company by 5% to 24.9% with a payment of $766. As of December 31, 2008 and 2007, this has been accounted for as an equity investment.

Acquisition of Fundo Wheels

Fundo Wheels AS ("Fundo"), located in Høyanger, Norway, is an original equipment manufacturer of cast aluminum wheels for high end European car manufacturers.
On March 22, 2004, Timminco, through its subsidiary Nor-Wheels, indirectly acquired a 24.4% interest in Fundo Wheels AS ("Fundo"), for $4,706 from its controlling

shareholder which is the Community of Høyanger (the "Community").

Under the agreements from the purchase, Nor-Wheels holds a call option to purchase the Community's Fundo shares no sooner than January 1, 2008, on the satisfaction of certain conditions. Beginning January 1, 2008, the Community may exercise a put option requiring Nor-Wheels to purchase the Community's shares, at book value determined on the date of exercise. Timminco accounts for the Fundo investment under the equity method as it does not have control over Fundo and neither Nor-Wheels nor the Community can exercise the call or the put option until January 1, 2008. The acquisition of the equity interest did not create any purchase discrepancy.

In 2005, Timminco acquired an additional 726 shares of Fundo increasing its ownership from 24.4% to 47.1%. In December 2006, Timminco acquired an additional 264 shares of Fundo from treasury for $933. The Community also invested in Fundo such that Timminco's ownership interest remained at 47.1%.

In March 2007, the Company acquired an additional 453 shares of Fundo from Treasury for $1,561. The Community again invested at an equivalent level to maintain the ownership levels. These acquisitions did not create any purchase discrepancy. As at December 31, 2007, Timminco has a 47.1% share in Fundo and the Community owns approximately 52.9%.

On March 14, 2008, Timminco converted into shares the full principal amount of two loans provided during 2007 to fund working capital. After the conversion of this debt, the Company's ownership percentage of Fundo decreased from 47.1% to 45.3%.

In September 2008, it became evident that there may not be sufficient capital within Fundo to secure its long-term viability. Accordingly, the investment in Fundo and all related notes receivable from Fundo were written down to nil, which is management's best estimate of their fair value.

6. Revenue

	2008	2007
Sales of goods	1,517,903	1,155,623
Rendering of services (commissions)	41	36
Total revenues	1,517,944	1,155,659

For construction contracts, the following has been recognized using the percentage of completion revenue recognition method:

	2008	2007
Contract revenue recognized	312,454	264,392
Contract expenses recognized	212,057	178,099
Recognized profits	100,397	86,293
Contract costs incurred and recognized profits	375,049	281,940
Progress billings and advances received	436,331	302,663
Net amount due to customers	(61,282)	(20,723)
Gross amount due from customers for contract work	32,767	54,008
Gross amount due to customers for contract work (shown as advance payments in consolidated balance sheet)	(94,049)	(74,731)
Net amount due to customers	(61,282)	(20,723)

7. Other income

	Note	2008	2007
Grant income	i	4,413	5,569
Income from cancelled order	ii	1,806	–
Gains from asset sales	iii	896	–
Release of unused provisions	iv	690	865
Rental income	vi	195	401
Other miscellaneous income	vi	588	876
Negative goodwill	vii	–	2,162
		8,588	9,873

In 2008, Other income of $8,588 consisted of: (i) government grant income of $4,413 associated with our Berlin operation (see note 5) and at Graphit-Kropfmühl; (ii) income from a cancelled furnace contract in the amount of $1,806; (iii) income from asset sales of $896; (iv) release of unused provisions of $690; (v) rental income of $195 at two subsidiaries which rent out unused space and (vi) other miscellaneous income of $588.

In 2007, Other income of $9,873 consisted of: (i) government grant income $5,569 associated with the acquisition of Berlin (see note 5); (vii) negative goodwill of $2,162 associated with the acquisition of FNE (see note 5); (iv) release of unused provisions of $865; (v) rental income of $401 at two subsidiaries which rent out unused space in their facilities and (vi) other miscellaneous income of $876.

8. Personnel expenses

	Note	2008	2007
Wages and salaries		171,474	137,253
Contributions to defined contribution plans		2,827	3,439
Expenses related to defined benefit plans	26	9,731	9,177
Curtailment loss	26	822	445
Recognized actuarial gains in excess of pension corridor	26	(6,374)	–
Social security and other benefits		34,974	25,969
Share-based payment compensation	27	20,063	4,207
		233,517	180,490
Included in the following lines of the consolidated income statement:			
Cost of sales		142,736	112,160
Selling, general and administrative costs		90,781	68,330
		233,517	180,490

9. Finance income and expense

Recognized in profit or loss

	2008	2007
Interest income on bank deposits	5,563	6,340
Interest income on related party loans	552	614
Accretion on convertible loan	757	–
Interest income on short term investments	260	–
Other	651	–
Finance income	7,783	6,954
Foreign exchange (loss) income	(6,331)	3,591
Amortization of loan issuance costs	(1,750)	(1,730)
Amortization of rate cap instrument	(280)	(60)
Finance lease expense	(28)	(20)
Accretion on convertible loan	(446)	(769)
Interest expense on loans and borrowings	(16,621)	(25,444)
Interest expense on interest rate swap	(222)	–
Discount for provisions	(543)	–
Guarantees	(1,205)	–
Other	(495)	–
Finance expense	(21,590)	(28,023)
Loss on early repayment of debt	–	(34,668)
Net finance income and expense	(20,138)	(52,146)

10. Income tax

Significant components of income tax expense for the years ended:

	2008	2007
Current tax expense		
Current period	27,719	14,177
Adjustment for prior periods	(1,112)	(3)
Total current taxation charges for the year	26,607	14,174
Deferred tax expense		
Origination and reversal of temporary differences	(5,044)	(3,540)
Changes in previously unrecognized tax losses, tax credits and unrecognized temporary differences	17,772	6,816
Changes in previously recognized tax losses, tax credits and recognized temporary differences for changes in enacted tax rates	790	3,354
Adjustment for prior periods	1,814	(96)
Total deferred taxation for the year	15,332	6,534
Total income tax expense reported in the income statement	41,939	20,708

Reconciliation of effective tax rate

A reconciliation of income tax expense applicable to accounting profit before income tax at the weighted average statutory income tax rate of 38% to the Company's effective income tax rate for the years ended is as follows:

	2008	2007
Profit before income tax	44,497	28,810
Income tax using the Company's weighted average tax rate	16,909	10,948
Foreign dividend repatriations	–	–
Non-deductible expenses	2,374	391
Current year losses for which no deferred tax asset was recognized and changes in unrecognized temporary differences	18,270	16,483
Recognition of previously unrecognized tax losses, tax credits and temporary differences of a prior year	(498)	(9,667)
Changes in previously recognized tax losses, tax credits and recognized temporary differences for changes in enacted tax rates	790	3,354
Under (over) provided in prior periods	703	(99)
Other	3,391	(702)
	41,939	20,708
Included in the following lines of the consolidated income statement:		
Income tax expense	41,939	19,322
Goodwill adjustment relating to deferred tax asset	–	1,386
	41,939	20,708

The weighted average statutory income tax rate is the average of the statutory income tax rates applicable in the countries in which the Company operates, weighted by the profit/(loss) before tax of the subsidiaries in the respective countries as included in the consolidated accounts. Some entities have losses for which no deferred tax assets have been recognized.

During the year ended December 31, 2008 the income tax benefits related to current year losses of the newly acquired German business and the Canadian magnesium business have not been recognized. During the year ended 2007, the income tax benefits related to current year losses of certain U.S. subsidiaries and the Canadian magnesium business were not recognized. In total, $18,270 and $16,483 were not recognized in 2008 and 2007, respectively, as it is not probable the amounts will be realized.

During the year ended December 31, 2008 certain income tax benefits related to previously unrecognized tax losses and temporary differences related to a German subsidiary, GfE were recognized. During the year ended 2007, certain income tax benefits related to previously unrecognized tax losses and temporary differences related to the Canadian solar silicon business and to the German subsidiary, GfE were recognized. In total, $498 and $9,667 were recognized in 2008 and 2007, respectively, through an increase to the net deferred tax asset of $498 in 2008 and $9,667 in 2007. The income tax benefits were recognized since it is probable the amounts will be realized.

Also during the years ended December 31, 2008 and 2007, the net recognized deferred tax assets/(liabilities) were adjusted for changes in the enacted tax rates in Canada, Germany and the U.K. The impact of the tax rate changes was an increase to income tax expense of $790 and $3,354 for 2008 and 2007, respectively.

There were no income tax consequences attaching to the payment of dividends in either 2008 or 2007 by AMG Advanced Metallurgical Group N.V. to its shareholders, as no dividend payments were made.

The main factors considered in assessing the realizability of deferred tax benefits were improved profitability, higher forecast profitability and the indefinite carry-forward period of the tax losses. After assessing these factors, the Company determined that it is probable that the deferred tax benefit of the tax losses and temporary differences will be realized.

Deferred tax assets and liabilities

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as tax loss and tax credit carry-forwards.

Deferred tax assets are recognized to the extent it is probable the temporary differences, unused tax losses and unused tax credits will be realized. The realization of deferred tax assets is reviewed each reporting period and includes the consideration of historical operating results, projected future taxable income exclusive of reversing temporary differences and carry-forwards, the scheduled reversal of deferred tax liabilities and potential tax planning strategies.

Recognized deferred tax assets/(liabilities)

Deferred tax assets/(liabilities) have been recognized in respect of the following items:

	Consolidated Balance Sheet				Consolidated Income Statement	
	Assets		Liabilities			
	2008	2007	2008	2007	2008	2007
Inventories	58,057	39,147	582	41	23,628	(13,671)
Long-term contracts	8,985	12,145	98,407	75,259	(30,970)	25,264
Prepaids and other current assets	1,826	2,106	1,838	2,183	61	288
Property, plant and equipment	3,842	3,747	13,177	5,981	2,831	(1,520)
Deferred charges and non-current assets	783	506	3,681	2,224	3,107	(13)
Accruals and reserves	5,274	3,743	4,224	2,159	(2,472)	739
Environmental liabilities	226	261	1,248	–	20	(199)
Retirement benefits	7,680	11,614	66	367	(3,682)	1,040
Tax loss and tax credit carry-forwards	9,718	17,370	–	–	(7,855)	(5,394)
Tax assets/liabilities	96,391	90,639	123,223	88,214		
Set off of tax	(67,210)	(56,102)	(67,210)	(56,102)		
Net tax assets/liabilities	29,181	34,537	56,013	32,112		
Deferred income tax (benefit) provision					(15,332)	6,534

Unrecognized deferred tax assets/(liabilities)

Certain deferred tax assets/(liabilities) have not been recognized in respect of tax loss carry-forwards and temporary differences as they may not be used to offset taxable profits elsewhere in the Company and they have arisen in subsidiaries that have been loss-making for some time.

At December 31, 2008 there were gross unrecognized tax loss carry-forwards of $140,210 from US operations and $41,964 from Canadian operations, both of which expire through 2028, and $68,003 from German operations, which do not expire. At December 31, 2007 there were gross unrecognized tax loss carry-forwards of $157,376 from US operations and $45,722 from Canadian operations, both of which expire through 2027, and $16,000 from German operations, which do not expire.

Deferred tax assets/(liabilities) have not been recognized in respect of the following items:

	Assets		Liabilities	
	2008	2007	2008	2007
Inventories	880	516	150	50
Prepaids and other current assets	–	–	52	53
Property, plant and equipment	8,401	7,833	3,041	2,831
Accruals and reserves	3,397	4,100	–	–
Deferred charges and non-current assets	6,025	916	–	–
Environmental liabilities	2,640	3,416	–	–
Retirement benefits	9,540	9,713	463	660
Tax loss and tax credit carry-forwards	96,971	78,935		–
Tax assets/(liabilities)	127,854	105,429	3,706	3,594
Set off of tax	(1,724)	(3,594)	(1,724)	(3,594)
Net tax	126,130	101,835	1,982	–

11. Exceptional items

Operating profit is adjusted for exceptional items. Exceptional items comprise income and expense items that, in the view of management, do not arise in the normal course of business and items, that because of their nature and/or size, should be presented separately to enable a better analysis of the results.

In the year ended December 31, 2008, operating income was adjusted for a significant number of exceptional items which arose during the fourth quarter. The timing of the pension items is primarily due to the timing of final valuations being completed. The Company's policy for asset impairment testing calls for tests to be performed as of December 31, unless there is a cause for earlier testing. The economic crisis could be considered a cause for impairment testing but this was only felt in the Company's businesses in November and December which made the December 31 test date an appropriate impairment testing date.

Operating profit includes the exceptional items noted in the following reconciliation:

	2008	2007
Operating profit	75,219	84,169
Asset impairment of loans, fixed assets and intangibles	51,775	–
Recognition of actuarial losses due to pension plan curtailment	4,561	–
Recognition of actuarial gains due to service termination in pension plan	(9,863)	–
Amortization of purchase accounting adjustments to inventory	8,178	–
Environmental	5,233	2,107
Restructuring	5,129	(241)
Adjusted operating profit	140,232	86,035

12. Property, plant and equipment

	Mine Expansion (a)	Land and Buildings	Machinery and Equipment	Furniture and Fixtures	Construction in progress	Finance Leases	Total
Cost							
Balance at January 1, 2007	–	56,718	277,904	15,944	7,700	272	358,538
Additions	–	5,030	38,311	2,644	9,845	721	56,551
Retirements and transfers	–	11,939	(1,146)	3,109	(2,947)	–	10,955
Effect of movements in exchange rates	–	4,653	24,292	1,503	493	99	31,040
Balance at December 31, 2007	–	78,340	339,361	23,200	15,091	1,092	457,084
Balance at January 1, 2008	–	78,340	339,361	23,200	15,091	1,092	457,084
Additions	4,407	31,879	89,399	4,960	26,898	–	157,543
Acquisitions through business combinations	5,486	26,196	45,078	1,716	3,276	–	81,752
Retirements and transfers	785	23,324	(42,749)	(3,896)	(15,104)	–	(37,640)
Effect of movements in exchange rates	(417)	(10,859)	(33,863)	(1,104)	(603)	(127)	(46,973)
Balance at December 31, 2008	10,261	148,880	397,226	24,876	29,558	965	611,766
Depreciation and impairment losses							
Balance at January 1, 2007	–	(26,430)	(218,327)	(12,301)	–	(224)	(257,282)
Depreciation for the year	–	(2,161)	(12,948)	(2,011)	–	(29)	(17,149)
Retirements and transfers	–	(5,923)	4,387	(2,576)	–	–	(4,112)
Impairments	–	–	(212)	–	–	–	(212)
Effect of movements in exchange rates	–	(2,179)	(19,206)	(1,139)	–	(42)	(22,566)
Balance at December 31, 2007	–	(36,693)	(246,306)	(18,027)	–	(295)	(301,321)
Balance at January 1, 2008	–	(36,693)	(246,306)	(18,027)	–	(295)	(301,321)
Depreciation for the year	(275)	(3,545)	(20,773)	(2,157)	–	(75)	(26,825)
Retirements and transfers	(41)	(15,008)	43,788	4,364	–	(25)	33,078
Impairments	–	(1,094)	(24,202)	–	–	–	(25,296)
Effect of movements in exchange rates	178	3,266	17,902	657	–	65	22,068
Balance at December 31, 2008	(138)	(53,074)	(229,591)	(15,163)	–	(330)	(298,296)
Carrying amounts							
At January 1, 2007	–	30,288	59,577	3,643	7,700	48	101,256
At December 31, 2007	–	41,647	93,055	5,173	15,091	797	155,763
At January 1, 2008	–	41,647	93,055	5,173	15,091	797	155,763
At December 31, 2008	10,123	95,806	167,635	9,713	29,558	635	313,470

Mine expansion

The Company expanded its mine during 2008. Mine expansion includes stripping costs of $3,790. Amortization of stripping costs did not begin in 2008 as the asset was only put into production in December 2008.

Property, plant and equipment under construction

During the year ended December 31, 2008, the subsidiaries of the Company embarked on several different expansion projects as well as certain required maintenance projects. Costs incurred up to December 31, 2008, which are included in construction in progress totalled $29,558 (2007: $15,091).

Finance Leases

At December 31, 2008, the Company had $635 (2007: $797) of finance leases for equipment and software.

Depreciation of property, plant and equipment

Depreciation expense for the year ended December 31, 2008 was $26,825 (2007: $17,149). Depreciation expense is recorded in the following line items in the consolidated income statement:

	2008	2007
Cost of sales	24,441	14,040
Selling, general and administrative expenses	2,384	3,109
Total	26,825	17,149

Sale of equipment

Certain equipment was sold in the years ended December 31, 2008 and 2007. In those years, the Company received proceeds of $1,268 and $768, respectively. In the year ended December 31, 2008, the proceeds were greater than the book value of the assets and gains of disposal of equipment were $896. In the year ended December 31, 2007, the proceeds were less than the book value of the assets and as such, losses on disposal of equipment were recorded in the amount of $93.

Impairment testing

Impairment losses were recorded at certain locations in 2008 and 2007 due to the discontinued use of certain assets.

The Company performs goodwill impairment tests annually in accordance with IFRS guidelines. As a result of the goodwill impairment test on the Company's newly acquired subsidiary, GK, the Company had to record an impairment charge against GK's machinery and equipment for $23,565. See note 13 for more details.

In 2008, fixed asset impairment charges of nil (2007: $76) were recorded at a subsidiary in New Jersey where the Company effectively shut down all plant operations. The charges relate to the fixed assets of the plant site that ceased functioning and are presumed to have no resale value.

In 2008, asset impairment charges of $743 (2007:$136) were recorded due to impairments on two buildings at a subsidiary in South Carolina and a subsidiary in Memphis.

Haley plant closure

On June 6, 2008, Timminco announced the closure of one of its manufacturing facilities in Haley, Ontario. Accordingly, certain assets were written down and an impairment loss of $988 was incurred during 2008. See note 28 for more details.

The asset impairment charges, totalling $25,296 in 2008 (2007: $212) are included in the asset impairment expense line of the consolidated income statement.

Security

At December 31, 2008 properties with a carrying amount of $305,910 (2007: $115,653) are pledged as collateral to secure certain bank loans of subsidiaries.

13. Intangible assets

	Goodwill	Customer relationships	Supply contracts	Other intangible assets	Total
Cost					
Balance at January 1, 2007	36,116			16,124	52,240
Additions	454			2,063	2,517
Acquisition through business combination					
Disposals and transfers	–	–	–	–	–
Recognition of deferred taxes on acquisition	(1,386)	–	–	–	(1,386)
Effect of movements in exchange rates	4,796			2,157	6,953
Balance at December 31, 2007	39,980	–	–	20,344	60,324
Balance at January 1, 2008	39,980	–	–	20,344	60,324
Additions	–	–	–	748	748
Acquisition through business combination	13,644	10,079	4,463	3,584	31,770
Disposals, reversals and transfers	(931)	–	–	–	(931)
Effect of movements in exchange rates	(5,420)	(585)	(318)	(2,104)	(8,427)
Balance at December 31, 2008	47,273	9,494	4,145	22,572	83,484
Amortization and impairment					
Balance at January 1, 2007	–	–	–	(7,342)	(7,342)
Amortization	–	–	–	(1,514)	(1,514)
Disposals	–	–	–	(75)	(75)
Effect of movements in exchange rates				(1,102)	(1,102)
Balance at December 31, 2007	–	–	–	(10,033)	(10,033)
Balance at January 1, 2008	–	–	–	(10,033)	(10,033)
Amortization		(939)	(1,408)	(2,148)	(4,495)
Disposals and reversals	–	–	–	167	167
Impairment	(10,165)	(8,607)	(2,815)	(1,382)	(22,969)
Effect of movements in exchange rates	–	52	78	776	906
Balance at December 31, 2008	(10,165)	(9,494)	(4,145)	(12,620)	(36,424)
Carrying amounts					
At January 1, 2007	36,116	–	–	8,782	44,898
At December 31, 2007	39,980	–	–	10,311	50,291
At January 1, 2008	39,980	–	–	10,311	50,291
At December 31, 2008	37,108	–	–	9,952	47,060

Intangible assets are comprised of goodwill, customer relationships, supply contracts and other intangible assets. For goodwill, there is no amortization recorded and instead, impairment tests are performed.

The other intangibles amount represents certain licenses and a patent bought and used by a Canadian subsidiary related to a manufacturing process. This patent is being amortized over 10 years, beginning in 2007.

Research and development costs

Research and development costs are expensed as incurred and included in selling, general and administrative expenses. Research and development as of December 31, 2008 was $8,235 (2007: $6,191)

Amortization of intangible assets

Amortization expense for year ended December 31, 2008 was $4,495 (2007: $1,514). Amortization expense is recorded in the following line items in the consolidated income statement:

	2008	2007
Cost of sales	2,056	1,367
Selling, general and administrative expenses	2,439	147
Total	4,495	1,514

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill and indefinite-lived intangible assets are allocated to the Company's operating divisions that represent the lowest level within the Company at which the goodwill is monitored for internal management purposes. Sudamin and LSM are included in the Advanced Materials segment, while ALD is included in the Engineering Services segment. Timminco and GK are included in their similarly named segments.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	2008	2007
Sudamin cash-generating unit (France)	11,011	11,552
LSM cash-generating unit (UK)	1,510	1,510
ALD cash-generating unit (including FNAG)	10,155	9,042
Timminco cash-generating unit	14,432	17,876
GK cash-generating unit	–	–
Goodwill at cash-generating units	37,108	39,980

Key assumptions

The calculations of value in use are most sensitive to the following assumptions:

- Global metals pricing
- Discount rate
- Growth rate used to extrapolate cash flows beyond budget period

Global metals pricing – Estimates are obtained from published indices. The estimates are evaluated and used to the extent that they meet management's expectations of future pricing.

Discount rates – Discount rates reflect management's estimate of risks specific to each unit. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the Company.

Growth rate assumptions – Rates are based on management's interpretation of published industry research. As most businesses follow economic trends, an inflationary factor was utilized. The ALD and Timminco growth rate assumptions were slightly higher than inflation due to their focus on alternative energy. Alternative energy is expected to be a high growth industry and therefore rates were slightly higher than the specialty metals industry.

It is possible that the key assumptions related to metals pricing that were used in the Plan will differ from actual results. However, management does not believe that any possible change in pricing will cause the carrying amount to exceed the recoverable amount. The values assigned to the key assumptions represent management's assessment of future trends in the metallurgical industry and are based on both external sources and internal sources (historical data).

For the impairment tests for Sudamin, LSM, ALD Group, Timminco and GK's cash-generating units the recoverable amounts are the higher of the fair value less costs to sell and the value in use. The value in use was determined using the discounted cash flow method. In 2008 and 2007, the carrying amounts of the Advanced Materials, ALD, Timminco and GK units were determined to be lower than their recoverable amounts and impairment losses were not recognized.

(1) Sudamin unit's value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 2% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry in France.
- Revenue projections are based on an internal 3-year business plan.
- Discount rates of 11.3 percent and 9.42 percent were applied in determining the recoverable amount of the unit for the years ended December 31, 2008 and 2007, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.
- Sudamin's value-in-use exceeds its carrying value at December 31, 2008 by $6,026.

(2) LSM unit's value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 2% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry in the UK.

- Revenue projections are based on an internal 3-year business plan.
- Discount rates of 10.69 percent and 9.65 percent were applied in determining the recoverable amount of the unit for the years ended December 31, 2008 and 2007, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.
- LSM's value-in-use exceeds its carrying value at December 31, 2008 by $716.

(3) ALD Group unit's value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 3% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry.
- Revenue projections are based on an internal 3-year business plan.
- Discount rates of 11.3 percent and 7.48 percent were applied in determining the recoverable amount of the unit for the years ended December 31, 2008 and 2007, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness. ALD's value-in-use exceeds its carrying value at December 31, 2008 by $839,180.

(4) Timminco Group unit's value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 3% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry in North America.
- Revenue projections are based on an internal 3-year business plan.
- Discount rates of 11.44 percent and 9.48 percent were applied in determining the recoverable amount of the unit for the years ended December 31, 2008 and 2007, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.
- Timminco's value-in-use exceeds its carrying value at December 31, 2008 by $501,050.

(5) GK Group unit's value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 2% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry.
- Revenue projections are based on an internal 3-year business plan.
- Discount rate of 10.48 percent was applied in determining the recoverable amount of the unit for the year ended December 31, 2008. The discount rate was derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.

Based on the value in use calculations, the carrying amounts of GK were determined to be lower than the recoverable amounts and an impairment of $46,046 was recorded in the year ended December 31, 2008. This impairment was primarily allocated to the assets that were recognized in the purchase price allocation. Impairments in intangible assets in the amount of $22,481 were recorded. The impairments also impacted fixed assets by $23,565.

Impairment of equity investment in Bostlan S.A. ("Bostlan")

Impairment tests for LSM's 25% equity investment in Bostlan, an entity located in Spain, were based on its value in use. The carrying amountof this individual asset as of December 31, 2008 and 2007 was $2,162 and $1,852, respectively. The carrying amounts were determined to be lower than the investment's recoverable amounts and no impairment was necessary in 2008 or 2007.

Bostlan's fair value was determined by discounting the future cash flows generated from the continuing use of the asset and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the 3-year business plan, covering the 2009, 2010 and 2011 fiscal years.
- The growth rate of 2% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry in Spain.
- Revenue projections are based on an internal 3-year business plan.
- Discount rates of 7.32 percent were applied in determining the recoverable amount of the asset for the years ended December 31, 2008 and 2007, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.
- Bostlan's value-in-use exceeds its carrying value at December 31, 2008 by $1,072.

14. Associates

The Company's share of loss in its associates for 2008 was $10,584 (2007: $3,213).

On December 18, 2008, a wholly owned subsidiary of the Company invested $10,432 (including $118 of acquisition costs) to acquire 50% of Silmag DA. Silmag DA is a joint venture with Norsk Hydro that was established to develop a unique process to produce silica and magnesium at a low cost from olivine, a raw material abundant in Norway. Silmag DA operations complement those of the Company. See note 5 for more details.

On October 31, 2008, the Company completed the acquisition of 100% of the shares of its nuclear joint venture, Furnaces Nuclear Applications Grenoble ("FNAG") with a payment of $3,514. A purchase price allocation was completed for the acquisition of FNAG on October 31, 2008 and it has been consolidated as of December 31, 2008. FNAG operations are consistent with those of the Company. See note 5 for more details.

On June 7, 2006, GfE made a payment, valued at approximately $2,700, to purchase a 24.9% share of ownership in FNE Forschungs-institut für Nichteisen-Metalle Freiberg GmbH ("FNE") from its current family ownership. The purchase agreement included a call option under which GfE was entitled to purchase the remaining shares for a defined purchase price within the timeframe from January 1, 2007 through January 1, 2008. GfE exercised the option on December 3, 2007 purchasing the remaining 75.1% of FNE shares for $4,031. FNE has been consolidated as of December 31, 2007. See note 5 for more details.

In 2007, ALD GmbH made an investment of approximately $766 to increase its ownership in ABS Apparaté to 24.9%. As of December 31, 2008 and 2007 this has been accounted for as an equity investment.

In July 2007, the Company paid a deminimus amount in order to acquire an additional 0.2% of EsteR-Technologie GmbH. This entity has been consolidated, due to increased control over the investment, for the years ended December 31, 2008 and 2007.

Acquisition of Fundo Wheels

Fundo Wheels AS ("Fundo"), located in Hoyanger, Norway, is an original equipment manufacturer of cast aluminum wheels for high end European car manufacturers. The Company accounts for the Fundo investment under the equity method as it does not have control over either Fundo or Nor-Wheels nor can the Company exercise the call or the put option until January 1, 2008. The acquisition of the equity interest did not create any purchase discrepancy. See note 5 for more details on the acquisition of Fundo Wheels.

In March 2007, the Company acquired an additional 453 shares of Fundo from Treasury for $1,561. The Community again invested at an equivalent level to maintain the ownership levels. These acquisitions did not create any purchase discrepancy. As at December 31, 2008, Timminco has a 45.3% share in Fundo (2007: 47.1%).

During the year ended December 31, 2008 the Company loaned Fundo $3,812 (2007: $4,570) to assist Fundo with its working capital requirements. The loans are due on prescribed dates in 2009 and 2010, bear interest at three month NIBOR plus 4% and in certain circumstances are repaid in quarterly instalments commencing in 2009. The loans are secured by a charge against Fundo's land, buildings and equipment and are subordinate to Fundo's bank debt. The loans are convertible into shares of Fundo at the Company's option at Fundo's book value on the date the loans were granted or on the date of conversion at the Company's option. The conversion of the loans is restricted such that the Company cannot exceed ownership of 49.9% of Fundo through the conversion of this loan.

In September 2008, it became evident that there may not be sufficient capital within Fundo to secure its long-term viability. Accordingly, the investment in Fundo and all related notes receivable from Fundo were written down to nil, which is management's best estimate of their fair value. Included in the share of loss from associates is the write-down of the investment in the amount of $8,227.

This valuation was validated in January 2009 when Fundo filed for bankruptcy.

In the year ended December 31, 2008, the Company determined that its investment in Heidenreich and Harbeck AG was not an associate, but rather should be treated as a held-to-maturity investment at cost. See note 17 for more details.

Summary financial information for associates, adjusted for the percentage ownership held by the Company:

2008	Country	Ownership	Total Assets	Total Liabilities	Net Equity	Revenues	Expense	Recognized Profit or loss	Carrying Amount
Bostlan	Spain	25.0%	7,530	5,102	2,428	12,729	12,185	544	2,162
ALD Holcroft Vacuum Technologica Co.	United States	50.0%	1,365	1,063	302	2,455	2,979	(524)	290
Fundo Wheels A.S.	Norway	45.3%	23,813	18,426	5,387	25,776	36,907	(11,131)	–
ABS Apparaté und Behälterbrau Staßfurt GmbH	Germany	24.9%	1,680	200	1,480	6,475	5,948	527	2,816
Silmag DA	Norway	50.0%	12,946	3,010	9,936	–	–	–	10,432
TOTAL								(10,584)	15,700
2007									
Bostlan	Spain	25.0%	8,030	5,700	2,330	13,636	13,313	323	1,852
ALD Holcroft Vacuum Technologica Co.	United States	50.0%	1,427	1,265	162	3,250	3,101	149	159
Furnaces Nuclear Applications Grenoble S.A.	France	50.0%	90	–	90	–	–	–	45
Fundo Wheels A.S.	Norway	47.1%	28,197	24,058	4,139	40,274	43,828	(3,554)	6,801
ABS Apparaté und Behälterbrau Staßfurt GmbH	Germany	24.9%	1,380	345	1,035	5,195	4,860	335	2,429
Other Disposals			–	–	–	–	–	(466)	–
TOTAL								(3,213)	11,286

For the entities which are joint ventures, additional financial information is as follows:

2008	Current Assets	Non-current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Total Liabilities
ALD Holcroft Vacuum Technologica Co.	1,350	15	1,365	1,063	–	1,063
Silmag DA	9,936	3,010	12,946	3,010	–	3,010
2007						
ALD Holcroft Vacuum Technologica Co.	1,420	7	1,427	1,265	–	1,265

15. Inventories

	2008	2007
Raw materials	117,543	69,724
Work in progress	86,374	22,137
Finished goods	108,862	89,649
Other	6,014	4,900
	318,793	186,410

In 2008 raw materials, changes in finished goods and work in progress contributed to cost of sales by $806,200 (2007: $680,817). In 2008 the write-down of inventories to net realisable value amounted to $20,452 (2007: $1,888) and was included in cost of sales. Other inventory primarily includes spare parts that are maintained for operations.

Inventory in the amount of $261,355 (2007: $168,767) is pledged as collateral to secure the bank loans of certain subsidiaries (see note 23).

16. Trade and other receivables

	Note	2007
Trade receivables, net of allowance for doubtful accounts	135,275	132,296
Notes receivable	5,380	939
Gross amount due from customers for contract work (POC)	320,061	244,111
Less: progress payments received	(287,294)	(190,103)
Net POC receivables	32,767	54,008
Total	173,422	187,243

At December 31, 2008, trade receivables include: receivables from customers who have received direct shipments or services from the Company; and receivables from customers who have utilized inventory on consignment. Amounts billed to percentage of completion customers are also included in the trade receivables line item in the balance sheet. The carrying amount of trade receivables approximates their fair value.

For terms and conditions relating to related party receivables, refer to note 38.

At December 31, 2008, receivables in the amount of $154,584 (2007: $179,540) are pledged as collateral to secure the term loan and multicurrency credit facility of the Company and the credit facilities of certain subsidiaries (see note 23).

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

At December 31, 2008, trade receivables are shown net of an allowance for impairment of $2,539 (2007: $1,851) arising from customer unwillingness or inability to pay. During the years ended December 31, 2008 and 2007, impairment losses in the amount of $554 and $459, respectively, have been recorded.

Movements in the provision for impairment of receivables were as follows:

	2008	2007
At January 1	1,851	1,390
Charge for the year	554	459
Amounts written off	(14)	(191)
Unused amounts reversed	(221)	(121)
Adjustment for acquisition	500	314
Foreign currency adjustments	(131)	
At December 31	2,539	1,851

As at December 31, the analysis of trade receivables that were past due but not impaired is as follows:

			Past due but not impaired				
	Total	Neither past due nor impaired	< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2008	173,422	132,016	25,207	9,052	2,016	1,502	3,629
2007	187,243	145,621	30,461	6,713	1,992	232	2,224

17. Other assets

Other assets are comprised primarily of the following:

	2008	2007
Prepaid income tax	18,276	15,049
Other tax assets	8,363	8,744
Prepaid inventory	10,783	16,259
Investments in equity securities	4,679	3,859
Pension prepayments	3,189	1,316
Supplier prepayments	2,760	2,705
Insurance	2,038	1,540
Various deposits	2,443	2,229
Commission prepayments	1,839	1,130
Other miscellaneous assets	10,046	4,869
	64,416	57,700
Thereof:		
Current	52,804	48,754
Long-Term	11,612	8,946

The Company has strategic investments in certain growth-based companies in Germany and Iceland. These equity investments cannot be reliably measured at fair value and are therefore accounted for using a cost basis. As of December 31, 2008 and 2007, these investments amounted to $4,679 and $3,859, respectively. In the financial statements as at December 31, 2007, one of the investments was classified as an associate. Since the Company does not exercise significant influence the investment is reclassified to other assets. The comparative figures have been adjusted accordingly.

18. Short term investments

Short term investments of $95 at December 31, 2008 (2007: $15,333) consists of Treasury Bills with maturities between one and six months.

19. Restricted cash

Restricted cash at December 31, 2008 is $15,889 and is comprised of a $3,137 security deposit to secure leasing activities and approximately $10,803 which provide security to financial institutions who issue letters of credit on behalf of the Company. These letters of credit serve two primary purposes: to provide financial backing for advanced payments made by our customers in the Engineering business and to provide financial assurance to vendors and regulatory agencies to whom the Company is obligated. Additionally, there is restricted cash related to an acquisition guarantee in the amount of $348 and an amount of $1,601 is restricted for import and export allowances.

At December 31, 2007, restricted cash was $14,582 and consisted of a $3,000 security deposit to secure leasing activities and approximately $5,635 as guarantees on behalf of financial institutions. Also, in connection with the Refinancing described in note 24, the Company was obligated to establish a reserve of approximately $5,947 to secure continuing obligations with respect to its existing letters of credit.

20. Cash and cash equivalents

	2008	2007
Bank balances	125,401	158,468
Call deposits	18,072	14,090
	143,473	172,558

Bank balances earn interest at floating rates based on daily bank deposit rates. Call deposits have maturities of approximately three months or less depending on the immediate cash needs of the Company, and earn interest at the respective short term rates.

At December 31, 2008, the Company had available $103,108 (2007: 83,558) of undrawn committed borrowing facilities.

The above chart is also representative of the consolidated cash flow statement, cash and cash equivalents with no bank overdrafts as of December 31, 2008 (2007: nil).

21. Capital and reserves

Initial Public Offering

On July 11, 2007, the Company completed its initial public offering ("IPO"). The IPO consisted of a public offering in the Netherlands and an international offering to certain institutional investors in certain other legal acceptable jurisdictions between 8:00am CET on June 27, 2007 and 5:00pm CET on July 11, 2007. AMG Advanced Metallurgical Group N.V. offered 9,333,409 new issued shares at €24/share. After the 5% fee provided to Credit Suisse for their services and the additional directors' shares, the net proceeds amounted to €212,825. €22,000 was to remain in Euros to pay IPO costs in that currency and the remaining proceeds were to be exchanged into USD, the functioning currency of the Company.

IPO Costs:		
Legal:	$	7,686
Accounting and tax:		4,178
Broker:		232
Other:		956
Total IPO Costs		13,052
Less: Portion paid by related party		(4,526)
Total Recorded IPO Costs	$	8,526

A portion of the IPO costs have been charged to Safeguard based on the allocated percentage of proceeds received. The remaining portion has been netted against the share premium reserve in Equity.

The Company entered into two foreign currency forward transactions on June 27, 2007 and July 5, 2007 fixing the exchanges rates of 1.34087 on €124,115 and 1.3541 on €66,710, respectively, providing fixed proceeds of $256,755. The actual exchange rate on the IPO date (July 11, 2007) was 1.3654 creating a difference of ($3,798) between IPO date exchange rate and forward contract exchange rates.

Share Capital

At December 31, 2008, the Company's authorized share capital was comprised of 100,000,000 ordinary shares (2007: 100,000,000) with a nominal share value of €0.02 (2007: €0.02). At December 31, 2008, the issued and outstanding share capital was comprised of 26,855,586 ordinary shares (2007: 26,803,086), with a nominal value of €0.02 (2007: €0.02) which were fully paid.

A rollforward of the total shares outstanding is noted below:

Balance at January 1, 2007		450
Effect of share split	March 29	449,550
MDHC contribution	March 29	550,000
ALD contribution	March 29	2,129,486
Timminco contribution 1	March 29	173,893
Timminco contribution 2	April 2	189,840
Effect of share splits	June 26	13,972,876
Initial public offering	July 11	9,333,409
Issuance of shares to directors	July 11	3,582
Balance at December 31, 2007		26,803,086
Balance at January 1, 2008		26,803,086
Exercise of share-based payments		52,500
Balance at December 31, 2008		26,855,586

Share-based payments

During the year ended December 31, 2008, 52,500 share-based payments were exercised resulting in 52,500 shares being issued. No additional shares were issued during the year ended December 31, 2008.

2007 Capital contributions

In the year ended December 31, 2007, the Company accounted for the contributions of the following companies only as share issuances and the assumption of related debt as described above for the ALD contribution. Therefore, the amount shown as negative equity from the contributions in kind on the statement of shareholders' equity represents any adjustments to the equity that was reported in the consolidated information as of December 31, 2006.

MDHC Contribution

On March 29, 2007 the Company issued a total of 549,746 Shares in consideration for the contribution in kind to the Company of shares held by each subscriber in the capital of MDHC. The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as a voluntary share premium (*niet bedongen agio*). The table above sets forth the numbers of Shares issued to each subscriber on March 29, 2007.

In addition, on April 2, 2007 the Company issued 254 Shares to The Lanigan Trust dated March 8, 2000 in consideration for cash (and at the same time The Lanigan Trust contributed its shares in the capital of MDHC as voluntary share premium).

ALD Contribution

On March 29, 2007 the Company issued 2,129,486 Shares to ALD International in partial consideration for the contribution in kind to the Company of all of the outstanding shares in the capital of ALD (the remainder of the consideration being satisfied by the Company's assumption of a debt payable to PFW Aerospace of approximately €16,100). The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as voluntary share premium.

Timminco Contributions

On March 29, 2007 the Company issued 173,893 Shares to BLP in consideration for the contribution in kind to the Company of 40,909,093 shares in the capital of Timminco. The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as voluntary share premium.

On June 26, 2007, the Company issued 189,840 Shares to ALD International in consideration for the contribution in kind to the Company of the right to have 5,601,000 Timminco shares issued to the Company. The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as voluntary share premium.

Other

On March 29, 2007, the 450 outstanding shares, each with a nominal value of €100, were transferred into 450,000 shares, each with a nominal value of €0.10.

On June 26, 2007, the 3,493,219 outstanding shares, each with a nominal value of €0.10, were split into five shares, each with a nominal value of €0.02.

Upon completion of the IPO, 3,582 shares were issued to members of AMG's supervisory board at a nominal value of €0.02.

Timminco Capital

In the year ended December 31, 2008, Timminco issued 421,500 shares to employees who exercised share-based payments during the year. The issuance of shares to these employees lowered the Company's ownership in Timminco to 50.34%.

On April 30, 2007, Timminco completed its public offering of 10,000,000 common shares at a price of C$2.60 per share and raised gross proceeds of C$26,000,000. The underwriters on the public offering also exercised their over-allotment option in full and purchased an additional 1,500,000 common shares at a price of C$2.60 per common share for gross proceeds of C$3,900,000. The total gross proceeds of the offering was C$29,900,000.

Also on April 30, 2007, Safeguard completed its conversion of the entire principal amount outstanding under the

$2,000 convertible promissory note issued March 7, 2006 to an affiliate of Safeguard into 5,601,000 common shares of Timminco at a conversion rate of C$0.40 per common share. The number and percentage of common shares now held by AMG, after giving effect to the conversion of the principal amount outstanding under the $2,000 note into 5,601,000 common shares, the issuance of 10,000,000 common shares in connection with the offering and the issuance of 1,500,000 common shares in connection with the exercise of the over-allotment option, is 46,510,092 common shares, representing 50.3% of the total of issued and outstanding common shares of Timminco, being 92,439,864 common shares.

On July 23, 2007, the Company increased its ownership position in Timminco to 50.6% by exercising its call option to acquire 913,500 Timminco common shares from Safeguard. Safeguard received the shares through the conversion of US$350,000 principal amount of its US$3,000,000 Promissory Note dated August 31, 2006.

On September 27, 2007, Timminco completed a private placement to the Company of 5,136,140 common shares at a price of $8.50 per common share for gross proceeds of $43,657,190. The private placement included all of the common shares issuable under the Company's additional share option. After giving effect to the public offering and the private placement, the Company continued to own 50.6% of the issued and outstanding shares of Timminco.

Other Reserves

	Net unrealised gains (losses) reserve	Foreign currency translation reserve	Share-based payment reserve	Treasury reserve	Total
Balance at January 1, 2007	534	(1,547)	–	(14,300)	(15,313)
Currency translation differences	–	3,220	–	(1,523)	1,697
Net movement on cash flow hedges	557	–	–	–	557
Tax effect on net movement on cash flow hedges	(821)	–	–	–	(821)
Equity-settled share-based payments	–	–	3,957	–	3,957
Balance at December 31, 2007	270	1,673	3,957	(15,823)	(9,923)
Balance at January 1, 2008	270	1,673	3,957	(15,823)	(9,923)
Currency translation differences	–	(11,788)	(249)	–	(12,037)
Net movement on cash flow hedges	(14,800)	–	–	–	(14,800)
Tax effect on net movement on cash flow hedges	1,842	–	–	–	1,842
Reversal of treasury reserve	–	–	–	15,823	15,823
Exercise of equity-settled share-based payments	–	–	(1,151)	–	(1,151)
Share-based payment activity at subsidiary	–	–	1,311	–	1,311
Equity-settled share-based payments	–	–	16,720	–	16,720
Balance at December 31, 2008	(12,688)	(10,115)	20,588	–	(2,215)

Net unrealized gains (losses) reserve

The net unrealized gains (losses) reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. For further discussion of the cash flow hedges and the amounts that were realized in the income statement, see note 34.

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries. As of January 1, 2005, there are three primary functional currencies used within the Company: the US Dollar, the Canadian Dollar and the Euro. There are three additional functional currencies used at small companies within the organisation with limited impact to the consolidated financial statements: the Japanese Yen, the British Pound Sterling and the Polish Zloty. Resulting translation adjustments were reported in a separate component of equity.

Share-based payment reserve

The share-based payment reserve is comprised of the value of equity-settled share-based payments provided to employees (and outside consultants), including key management personnel, as part of their remuneration. Refer to note 27 for details regarding these plans.

Treasury reserve

A treasury reserve was created at ALD in 2006, when Safeguard, its ultimate parent at the time, bought a subsidiary from ALD and instead of paying cash for the subsidiary, paid in ALD's own shares. During the year ended December 31, 2008, the ALD ownership structure was changed such that this reserve was settled and therefore, the treasury reserve amount was reclassified into share premium. Therefore, this reserve had a balance of nil and $15,823 at December 31, 2008 and 2007, respectively.

Dividends

No dividends have been paid or proposed in the years ended December 31, 2008 and 2007.

22. Earnings per share

Basic earnings per share

Basic earnings per share amounts are calculated by dividing net profits for the year attributable to ordinary equity holders of the parent by the weighted average of ordinary shares outstanding during the year. As of December 31, 2008, the calculation of basic earnings per share is performed using the weighted average shares outstanding for 2008. As of December 31, 2007, the calculation of basic earnings per share is performed using the ordinary shares outstanding, retroactively taking into effect share splits, contributions in kind, and shares issued in accordance with the Initial Public Offering (see note 21).

Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The only category of potentially dilutive shares at December 31, 2008 and 2007 are AMG's share options. The diluted earnings per share calculation includes the number of shares that could have been acquired at fair value given the value attached to the outstanding options. The calculated number of shares is then compared with the number of shares that would have been issued assuming the exercise of the share options.

	2008	2007
Earnings		
Net profit attributable to equity holders for basic and diluted earnings per share	14,453	11,704
Number of shares (in 000's)		
Weighted average number of ordinary shares for basic earnings per share	26,822	26,801
Dilutive effect of share-based payments	704	517
Weighted average number of ordinary shares adjusted for effect of dilution	27,526	27,318

23. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk, see notes 33 and 34.

Non-current	Effective interest rate	Maturity	2008	2007
€71,003 Term Loan	EURIBOR + 1.25%	2012	91,289	94,662
$175,000 Term Loan Revolver	EURIBOR + 1.25%	2012	17,000	–
€10,937 GK SPK Passau	4.25%–4.90%	Var	6,618	–
€3,000 GK Hypovereinsbank	5.08%	2013	3,132	–
€1,400 GK Landesbank	4.65%	2017	1,826	–
€2,200 GFE bank loan	4.95%	2023	2,427	2,675
€4,128 GfE subsidiary debt	4.05–6.50%	Var	2,876	3,652
CAD250 Timminco line of credit	7.00%	2010	80	156
€9,767 ALD subordinated loan	8.04%	2012	13,595	14,184
Capital lease obligations	4.74%	2010–2011	147	397
Total Non-current			138,990	115,726

Current	Effective interest rate	Maturity	2008	2007
€10,937 GK SPK Passau	4.25–4.90%	Var	949	–
€3,000 GK Hypovereinsbank	5.08%	2013	835	–
€1,400 GK Landesbank	4.65%	2017	122	–
€1,400 GK RLB	3.95%	2008	67	–
€2,200 GFE bank loan	4.95%	2023	118	112
€4,128 GfE subsidiary debt	4.05–6.50%	Various	538	759
€127 ALD subsidiary debt	EURIBOR + 2.00%	2009	177	–
Capital lease obligations	4.74%	2010–2011	215	231
Total Current			3,021	1,102

Refinancing

On August 30, 2007, the Company refinanced substantially all of its debt obligations by entering into a new senior credit facility agreement (the "Refinancing"). This agreement is comprised of two facilities, a $100,000 term loan facility (the "Term Loan") and a $175,000 multicurrency revolving credit facility agreement (the "Revolving Credit Facility"). The Term Loan and the Revolving Credit Facility mature on August 30, 2012 (together the "Credit Facility"). The Credit Facility is secured by substantially all of the assets of the material subsidiaries, excluding Timminco and GK, and a 100% pledge on all of the Timminco and GK shares which are owned by the Company.

Revolving Credit Facility

This facility provides the Company with up to $175,000 in borrowings, which is subject to certain affirmative and negative covenants. Borrowings under the Revolving Credit Facility may be used for general corporate purposes of the Company. As of December 31, 2008, $17,000 was outstanding under the Revolving Credit Facility (2007: nil). At December 31, 2008, there was unused availability of $103,108, as $71,892 of the $175,000 is being utilized under ancillary facilities at ALD and LSM. At December 31, 2007, there was unused availability of $83,558, as $91,442 of the $175,000 is reserved for ancillary facilities at ALD and LSM.

Interest on the Credit Facility is based on current LIBOR (or in the case of any loans denominated in Euros, EURIBOR) plus a 1.25 (2007: 1.50) percent margin. To mitigate risk, the Company entered into an interest rate swap to fix the interest rate on the term loan at 4.457%.

The Credit Facility is subject to several affirmative and negative covenants including, but not limited to, the following:

- EBITDA to Net Finance Charges: Not to be less than 3.00: 1
- Net Debt to EBITDA: Not to exceed 3.75: 1
- Senior Net Debt to EBITDA: Not to exceed 2:00:1

EBITDA, Net Finance Charges, Net Debt and Senior Net Debt are defined in the Credit Facility agreement.

Mandatory prepayment of the Credit Facility is required upon the occurrence of (i) a change of control or (ii) the sale of all or substantially all of the business and/or assets of the Company whether in a single transaction or a series of related transactions.

Early repayment of long-term debt

With the proceeds raised from the Company's Initial Public Offering, $168,300 of existing Senior Class A and B Notes (the "Senior Notes") were repaid in full on August 15, 2007. In connection with the repayment of the Senior Notes, the Company incurred a loss on debt extinguishment of $33,520. This includes $22,858 of prepayment penalties, $8,264 from the write-off of the unamortized balance of the previously deferred financing costs, and $2,398 for the write-off the remaining discount on the Senior A and B Notes.

In connection with the Refinancing, our UK subsidiary repaid $15,800 of remaining principal on its two $10,500 term loans with Barclays and HSBC and incurred a loss on debt extinguishment of $145, which consists of prepayment penalties and fees.

Belgian and German subsidiaries, with the proceeds from the Refinancing, also terminated their credit facilities with various lenders on September 19, 2007 and repaid all outstanding borrowings as of this date.

The Company also has a Subordinated Loan Agreement with HSBC Trinkhaus & Burkhardt KGaA. The principal amount of the subordinated loan is $13,595 (2007: $14,603). The subordinated loan bears interest at 7.27%. A disagio of 4.0% was applied on the subordinated loan; therefore the effective rate of interest is 8.038%. The term of the subordinated loan is unlimited. The Agreement can be terminated no earlier than August 10, 2012.

A German subsidiary maintains a loan agreement with Sparkasse Nuremberg which was originated on December 1, 2003 and requires annual payments of approximately $132. This loan is also secured by land and buildings.

Timminco credit facilities

On April 15, 2005, Timminco entered into a Credit Agreement (the "Agreement") with Bank of America, NA. The Agreement provided for a $5,750 term loan. The Agreement contained certain change of control provisions that were violated upon Timminco's private placement and AMG's public offering made during 2007, requiring Timminco to terminate this facility on September 27, 2007. The term loan is not available for reborrowing.
See note 25 for more details.

Timminco also entered into a line of credit in 2006 valued at $204 with Elkon Products. This line of credit had $80 outstanding as of December 31, 2008 (2007: $156).

GK debt

A subsidiary of GK, RW maintains a government subsidised loan agreement with Bayrische Landesbank and various other loan agreements with Hypo und Verinsbank and Sparkasse Passau. The loans carry various interest rates and were recognized by the Company upon the acquisition of GK. Those with floating interest rates have been fixed through interest rates swaps. See Note 34. These loans are secured by GK's property, plant and equipment.

Debt Issuance Costs

In connection with the Refinancing, the Company incurred issuance costs during 2007 which were deducted from the proceeds of the debt from the term loan. These costs totalled $9,405 and were comprised of $5,818 of banker transaction costs, $1,953 of legal costs, $1,633 of accounting costs and $1 of other miscellaneous costs associated with the offering. These amounts are shown net against the outstanding term loan balance and are amortized using the effective interest method using a rate of 8.50%.

Capital Leases

On April 1, 2007, our French subsidiary entered into a capital lease with Fortis Leasing of France to finance a piece of machinery. Monthly payments under this lease are €11.

In September 2007, Timminco entered into a capital lease for machinery and equipment. Annual payments under this lease are approximately CAD$50 a year until 2011.

On May 1, 2005, ALD entered into a 60 month capital leases for a software program. Annual payments under this lease are approximately €1.

Debt Repayments

The Company made various capital lease and debt re-payments of $7,850 during 2008. Of this amount, $6,544 related to payments made by GK on its Hypo und Verinsbank and Sparkasse Bank of $5,516 and $1,028, respectively. The remaining $1,306 relates to various capital lease and other debt re-payments.

During 2007, the Company repaid $207,349 of long-term debt. $168,300 of this related to the repayment of the Senior A and B notes which was repaid with proceeds from the IPO. $26,898 of this amount relates to repayments made in conjunction with the Refinancing. ALD repaid $8,031 of its outstanding debts with the following: DIF Deutsche Investitions Finanz GmbH (€232); Bayrische Hypo und Verinsbank AG (€125); Dresdner Bank AG (€1,707); and LaSalle Bank ($5,000). Timminco also repaid the remaining $4,120 of its term loan in September 2007.

24. Related party debt

On March 7, 2006, Timminco borrowed $2,000 from an affiliate of Safeguard, its controlling shareholder. The loan may be settled, at the lender's option, in cash or shares at CAD $0.40 per share, or a combination of cash and shares. The transaction was recorded as CAD $1,507 as Related party debt and CAD $687 as a convertible note in equity. The expected life of the debt coincides with the maturity of the Bank of America agreement including the optional renewal period, to which the debt is subordinate. This note was discharged in full on April 26, 2007, when Safeguard converted the entire principal amount of this loan into 5.6 million Timminco Shares.

On August 31, 2006, Timminco borrowed $3,000 from Safeguard, its controlling shareholder. The loan may be settled, at the lender's option, in cash or shares at CAD $0.40 per share, or a combination of cash and shares. The transaction was recorded as $2,282 as related party debt and $772 as convertible note in equity. The expected life of the debt coincides with the maturity of the Bank of America agreement including the optional renewal period, to which the debt is subordinate. $350 of the principal amount of this note was discharged on July 23, 2007, when Safeguard converted a portion of its principal balance in exchange for 914 thousand Timminco shares. At December 31, 2008, $2,906 (2007: $2,928) remained outstanding under this loan.

In December 2006, Timminco borrowed $928 from an affiliate of Safeguard, its controlling shareholder. The loan bears interest at 11% and matured December 31, 2007. This loan and accrued interest were paid in full on May 3, 2007.

On March 1, 2007, Safeguard, through an affiliate, loaned Timminco CAD $4,500 to expedite product development and to fund its further investment in Fundo Wheels. The loan is repayable on demand, and bears interest at the US prime rate plus 1%. The loan and related security are subordinate to the indebtedness and the security provided by the Corporation's senior lender, Bank of America, N.A. Under the terms of the loan, Safeguard, through its affiliate, has the option to convert the whole or any part of the outstanding principal amount at any time into common shares of the Corporation at a conversion rate of CAD$0.42 per common share. According to the transaction, CAD $2,800 was recorded as related party debt and CAD $1,700 was recorded as a component of equity. At December 31, 2008, $3,550 (2007: $4,824) remained outstanding under this loan.

All Timminco related party loans are postponed to existing bank loans secured by Timminco, and the security for the loans is subordinate to that for those bank loans. Subject to this postponement, the loans may be repaid at any time. They must be repaid on the occurrence of an event of default. Safeguard or its affiliates are entitled to terminate the loan agreements if bankruptcy or similar proceedings are commenced over the assets of Timminco, Fundo or Fundo Holdings AS.

Debt Repayments

There were no related party debt repayments during 2008.

As described in note 19, in conjunction with the contribution in kind of ALD International, the Company assumed a liability that one of its German subsidiaries had with PFW Aerospace, a Safeguard company, of approximately €16,100. The outstanding amount of $21,783 was repaid by the Company on July 19, 2007.

During 2007 and with proceeds from the Refinancing described in note 21, certain of the Company's European subsidiaries repaid $6,588 and $4,652, respectively of outstanding loans with Safeguard and other Safeguard related entities.

25. Short term bank debt

Debt Extinguishment

In connection with the Refinancing described in note 21, the Company extinguished its $30,000 existing credit facility on September 19, 2007. As a result, the Company paid $12,000 of outstanding borrowings under the old facility and incurred a loss on debt extinguishment of $1,069. The loss on debt extinguishment consists of the write-off of the unamortized balance of deferred financing costs of $741 and $328 of unused line and early termination fees.

Also in connection with the Refinancing during 2007, LSM terminated its $14,600 credit facility with Barclays and HSBC. There was no loss related to this transaction.

During 2007 Sudamin also terminated its €8,500 overdraft facility and its €4,000 line of credit with ING and Fortis in connection with the Refinancing. There was no loss related to this transaction.

Timminco

On April 15, 2005, Timminco entered into a Credit Agreement (the "Agreement") with Bank of America, NA. The Agreement provides for maximum credit lines of $50,000 (2007: $32,800), limited by a borrowing base, in a revolving loan. The revolving loan bears interest at the prime rate plus a bank margin of 1.25% and does not require minimum repayments. The Credit Agreement expires on March 31, 2010. The revolving loan is secured by the assets of Timminco. Total availability under the revolving loan is limited to the lesser of the borrowing base and the revolving credit commitments under the Credit Agreement minus amounts borrowed under the revolving loan. Timminco is required to maintain a minimum total availability of $2,000 at all times. As at December 31, 2008, Timminco had availability of $7,957 (2007: $23,559) under the Revolver and had $42,026 outstanding (2007: $21). The Credit Agreement is secured by Timminco's receivables, inventory and property, plant and equipment.

Other

The Company's Brazilian subsidiary maintains short term secured and unsecured borrowing arrangements with various banks. Borrowings under these arrangements are included in Short term debt on the consolidated balance sheet and aggregated $26,312 at December 31, 2008 (2007: $15,476) at a weighted-average interest rate of 8.54%.

GK, a subsidiary acquired during 2008 maintains short term secured and unsecured credit facilities with various banks to fund short term operating activities and capital projects. This short term debt carries both floating and fixed interest rates. The balance of these facilities at December 31, 2008 was $14,646 at a weighted-average interest rate of 6.97%.

One of the Company's German subsidiaries entered into a line of credit with Dresdner bank in 2007 at an interest rate of 9.18%. The balance of this loan as of December 31, 2008 was $582 (2007:$699).

Debt Repayments

The Company's subsidiary, GfE repaid $90 of short term debt during 2008.

During 2007, the Company repaid $43,646 of short term debt. Timminco repaid $24,536 of their Revolver described above. Also, with proceeds from the Refinancing described in note 21, Sudamin, LSM, and Metallurg, Inc repaid $8,901, $6,450, and $3,759, respectively of their outstanding borrowings.

26. Employee benefits

Defined Contribution Plans

Certain of the company's employees maintain US tax qualified defined contribution plans covering substantially all of the Company's salaried and hourly employees at US subsidiaries. All contributions, including a portion that represents a company match, are made in cash into mutual fund accounts in accordance with the participants' investment elections. The assets of the plans are held separately from the assets of the subsidiaries under the control of trustees. Where employees leave the plans prior to vesting fully in the Company contributions, the contributions payable by the Company are reduced by the forfeited contributions.

In Europe, the employees are members of state-managed retirement benefit plans operated by the government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the subsidiaries with respect to the retirement benefit plan is to make the specified contributions.

The total expense as of December 31, 2008 recognized in the consolidated income statement of $2,827 (2007: $3,439) represents contributions paid and payable to these plans.

Defined Benefit Plans

North American plans

US plans (Metallurg)

Certain of the Company's U.S. subsidiaries have tax-qualified, noncontributory defined benefit pension plans covering substantially all salaried and certain hourly paid employees. The plans generally provide benefit payments using a formula based on an employee's compensation and length of service. These plans are funded in amounts equal to the minimum funding requirements of the US Employee Retirement Income Security Act. Substantially all plan assets are invested in cash and short term investments or listed stocks and bonds.

On June 1, 2005, Metallurg entered into a Supplemental Executive Retirement Plan (the "SERP") with Eric E. Jackson, its President and Chief Operating Officer. Pursuant to the terms of the SERP, Mr. Jackson will earn additional retirement benefits for continued service with the Company. The maximum retirement benefit payment under the SERP is $252 per annum reduced by Mr. Jackson's retirement benefit as determined in accordance with Metallurg's US plan and payable from age 65 until age 88. The maximum retirement benefit payment will also be reduced in the case of the commencement of benefit payments prior to age 65 as a result of Mr. Jackson's early termination and/or early retirement. Under the terms of the SERP, Metallurg has no obligation to set aside, earmark or entrust any fund or money with which to pay the obligations thereto.

On April 1, 2007, Metallurg entered into an additional Supplemental Executive Retirement Plan (the "Executive SERP") with Heinz Schimmelbusch and Arthur Spector, its Chief Executive Officer and Deputy Chairman, respectively. Pursuant to the terms of the agreements, these officers will earn additional retirement benefits for continued service with the Company. The maximum retirement benefit under these SERP agreements is 50% of their final average compensation with a maximum per annum of $600 and $500 for Dr. Schimmelbusch and Mr. Spector, respectively. One-third of the benefit was recorded as of April 7, 2007 and the remaining two-thirds will be accrued ratably on the first day of each of the following twenty-four months. During the year ended December 31, 2007, Metallurg recorded a prior service cost expense of $2,176 and a total pension liability of $3,979. Pension expense related to this Executive SERP in 2008 totaled $2,620. Under the terms of the Executive SERP, Metallurg has no obligation to set aside, earmark or entrust any fund or money with which to pay the obligations thereto. However, the amounts are guaranteed by AMG.

Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages) are presented below.

	2008	2007
	% per annum	% per annum
Expected return on plan assets at January 1	8.25	8.25
Inflation	N/A	N/A
Salary increases	N/A	4.00
Rate of discount at December 31	6.25	6.25
Taxable wage base increases	3.00	3.00
IRC Section 401(a)(17) and 415 limits increases	3.00	3.00

The actual return on plan assets for the year ending December 31, 2008 was (25.21%) and the actual return on the plan assets over the year ending December 31, 2007 was 7.81%. The investment strategy of the subsidiaries is to achieve long-term capital appreciation, while reducing risk through diversification in order to meet the obligations of the plans. The expected return on plan assets assumption, reviewed annually, reflects the average rate of earnings expected on the funds invested using weighted average historical returns of approximately 10.70% for equities and approximately 5.50% for debt. In 2006, the plan assets for the US plans were reallocated to better match the expected benefit payments. This new allocation made the expected return on plan assets 8.25% for the US plans.

The expected long-term return on cash is equal to 3.0%. The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

Assumptions regarding future mortality are based on published statistics and the 1994 Group Annuity Mortality table. The valuation was prepared on a going-plan basis. The valuation was based on members in the Plan as of the valuation date and did not take future members into account. No provision has been made for contingent liabilities with respect to non-vested terminated members who may be reemployed. No provisions for future expenses were made.

Medical cost trend rates are not applicable to these plans.

The best estimate of contributions to be paid to the plans for the year ending December 31, 2009 is $424.

Canada and US plans (Timminco)

Timminco provides pension or retirement benefits to substantially all of its employees in Canada and the US through 401K and defined benefit plans, based on length of service and remuneration. Pension benefits vest immediately and are based on years of service and average final earnings. Other retirement benefits consist of a group insurance plan covering plan members for life insurance, disability, hospital, medical and dental benefits. At retirement, employees maintain a reduced life insurance coverage and certain hospital and medical benefits. The other retirement coverage provided by the plan is not funded. Employer contributions to the pension plans were made in accordance with their respective actuarial valuations.

Timminco Metals

Timminco provides a flat contributory retirement defined benefit pension plan for the Haley plant hourly employees of Timminco Metals, a division of Timminco Limited.

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2008	2007
	% per annum	% per annum
Expected return on plan assets at January 1	7.00	6.75
Inflation	N/A	N/A
Salary increases	N/A	N/A
Rate of discount at December 31	5.75	5.00
Pension payments increases	N/A	N/A

Timminco closed one of its operating plants during 2008. In addition to closing the plant, Timminco also closed Haley's pension plan and recognized a curtailment loss of $822. Due to the wind-up, the remaining service for active members is zero and as a result all unamortized gains or losses in excess of the 10% corridor are thereafter recognized in the respective accounting period. During 2008, Timminco had unamortized losses in excess of the 10% corridor of ($3,739).

Bécancour Silicon Inc. ("BSI")

Timminco provides a contributory retirement defined benefit pension plan for employees of BSI, a subsidiary of Timminco Limited.

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2008	2007
	% per annum	% per annum
Expected return on plan assets at January 1	7.00	7.00
Inflation	N/A	N/A
Salary increases – Union	2.80	2.50
Salary increases – Non-Union	3.00	
Rate of discount at December 31	7.50	5.50
Pension payments increases	N/A	N/A
Health care inflation – Select	8.30	7.57
Health care inflation – Ultimate	4.70	4.51

The best estimate of contributions to be paid to the Timminco plans for the year ending December 31, 2009 is $2,017.

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

European plans

UK plans

The Company sponsors the LSM 2006 Pension Plan and the LSM Additional Pension Plan, which are defined benefit arrangements. LSM's defined benefit pension plans cover all eligible employees in the UK.

Substantially all plan assets are invested in listed stocks and bonds. Benefits under these plans are based on years of service and the employee's compensation. Benefits are paid either from plan assets or, in certain instances, directly by LSM.

The expected long-term return on cash is equal to bank base rates at the balance sheet date. The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the balance sheet date. The expected rate of return on equities and property have been determined by setting an appropriate risk premium above gilt/bond yields having regard to market conditions at the balance sheet date.

The expected long-term rates of return on plan assets are as follows:

	2008	2007
	% per annum	% per annum
Equities	8.30	8.30
Bonds	4.50–6.00	4.50–6.00
Cash	5.50	5.50
Other	4.50	4.50
Overall for UK plans	7.75	4.50-7.75

The actual return on plan assets for the year ending December 31, 2008 was (10.30%) for the primary and (8.60%) for the additional defined benefit plan. The actual return on the plan assets over the year ending December 31, 2007 was 6.4% for the primary and 7.2% for the additional defined benefit plan, respectively.

LSM closed a pension plan during 2006. Due to the wind-up, the remaining service for active members is zero and as a result all unamortized gains or losses in excess of the 10% corridor are thereafter recognized in the respective accounting period. During 2008, LSM had unamortized gains in excess of the 10% corridor of $9,863.

Actuarial assumptions

	2008	2007
	% per annum	% per annum
Inflation	3.00	3.30
Salary increases	N/A	N/A
Rate of discount at December 31	6.70	6.00
Allowance for pension in payment increases of the Retail Prices Index ("RPI") or 5% p.a. if less	2.90	3.20
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	3.00	3.30
Allowance for commutation of pension for cash at retirement	nil	nil

Assumptions regarding future mortality are based on published statistics and mortality tables.

The best estimate of contributions to be paid to the primary plan for the year ending December 31, 2009 is $863. In the additional pension plan, only payment for expenses to run the plan, together with the Pension Protection Fund levy, are expected to be made in 2009.

ALD plans

ALD has defined benefit plans that cover employees in Germany. The benefits are based on years of service and average compensation.

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2008	2007
	% per annum	% per annum
Expected return on plan assets at January 1	3.75	3.75
Inflation	N/A	N/A
Salary increases	2.00	2.00
Rate of discount at December 31	5.70	5.50
Pension payments increases	2.00	2.00

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G").

The best estimate of contributions to be paid to the plans for the year ending December 31, 2009 is approximately $947.

GFE plans

GfE has two defined benefit plans that cover all of the employees who were considered plan participants prior to 2005. Each plan has been closed to new participants – one was closed in 1992 and the other was closed in 2005. The plan benefits are funded by insurance contracts which are managed by Swiss Life Group. Benefits are paid by the insurance contracts and are based on years of service and average compensation.

Upon obtaining controlling interest of FNE, GfE also acquired FNE's defined benefit plan that covers two former managing directors of FNE only. The plan benefits are funded by insurance contracts. Benefits are paid by the insurance contracts and are based on individual agreements with the managing directors.

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2008	2007
	% per annum	% per annum
Inflation	2.25	2.00
Salary increases	3.00	3.00
Rate of discount at December 31	6.00	5.50-5.60
Pension payments increases	2.00	2.00

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" and "Heuback 2005G").

GfE plan assets consist of insurance contracts, and the expected long-term rates of return are 5.00% for all periods.

The best estimate of contributions to be paid to GfE's plans for the year ending December 31, 2009 is approximately $2,437.

Sudamin Plans

The French office and operations of Sudamin have defined benefit pension plans which cover all employees. Sudamin funds the pension plans through an external insurance company but there are no plan assets. Benefits under the plans are based on the beginning of service for all employees; however, employees must be employed by Sudamin at retirement in order to obtain any benefits as vesting is only upon retirement. Benefits are paid by the external insurance company.

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2008	2007
	% per annum	% per annum
Inflation	nil	nil
Salary increases	2.50	2.50
Rate of discount at December 31	4.00	4.20

The discount rate used is based on the yields of AA rated euro zone corporate bonds + 10 years.

Assumptions regarding future mortality are based on published statistics and mortality tables ("2002-2004 INSEE").

No contributions to Sudamin plans are expected for the year ending December 31, 2009.

Graphit Kropfmühl (GK) plans

Graphit Kropfmühl has two defined benefit plans that cover all of the employees in Germany. The plan benefits are not funded. Benefits are paid by the insurance contracts and are based on years of service and average compensation.

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2008
	% per annum
Inflation	2.00
Salary increases	3.00
Rate of discount at December 31	6.00
Pension payment increases	2.00

Assumptions regarding future mortality are based on published statistics and mortality tables ("Heuback 2005G").

The best estimate of contributions to be paid to GK's plans for the year ending December 31, 2009 is approximately $561.

Presented below are employee benefits disclosures for plans aggregated by geographical location into the US and European groups.

	North American plans		European plans	
	2008	2007	**2008**	2007
Present value of unfunded obligations	21,670	19,838	864	881
Present value of funded obligations	67,195	82,084	145,776	178,108
Total present value of obligations	88,865	101,922	146,640	178,989
Fair value of plan assets	(47,245)	(67,347)	(77,433)	(126,497)
Unamortized past service costs	(21)	(31)	–	–
Unrecognized actuarial (gains) and losses	(14,167)	(9,442)	3,950	24,676
Recognized liability for defined benefit obligations	27,432	25,102	73,157	77,168
Total employee benefits	27,432	25,102	73,157	77,168

Movement in employee benefits

	North American plans		European plans	
	2008	2007	**2008**	2007
Recognized liability for defined benefit obligations at January 1	25,102	21,212	77,168	72,941
Expense recognized in profit and loss (see below)	10,278	6,464	(6,921)	3,162
Curtailment impact recognized in profit and loss	822	–	–	(4)
Amortization of vested past service cost	–	–	–	–
Benefits paid directly by the employer	–	–	(4,088)	(2,425)
Defined benefit obligation from GK acquisition	–	–	12,439	–
Employer contributions	(4,730)	(5,417)	(1,284)	(3,333)
Effect of movements in foreign exchange rates	(4,040)	2,843	(4,157)	6,827
Net liability for defined benefit obligations at December 31	27,432	25,102	73,157	77,168
Asset for defined benefit obligations at December 31	–	–	2,587	539
Liability for defined benefit obligations at December 31	27,432	25,102	75,744	77,707

Plan assets consist of the following:

	North American plans		European plans	
	2008	2007	**2008**	2007
Equity securities	22,498	37,297	16,970	84,430
Debt securities	24,147	24,619	55,176	37,084
Cash	300	5,431	122	216
Other	300	–	5,165	4,767
	47,245	67,347	77,433	126,497

Movement in present value of defined benefit obligations

	North American plans		European plans	
	2008	2007	**2008**	2007
Present value of defined benefit obligations at January 1	101,922	88,319	178,989	186,267
Benefits paid directly by the employer or from the plan assets	(5,137)	(5,860)	(13,005)	(9,335)
Contributions from plan participants	341	363	–	–
Past service cost	–	–	–	(500)
Current service costs and interest (see below)	10,722	8,568	12,819	11,553
Curtailment impact recognized in profit and loss (see below)	822	–	–	(4)
Defined benefit obligation from GK acquisition	–	–	12,439	
Plan amendments	(127)	2,176	(133)	484
Unrecognized actuarial (gains) and losses	(5,745)	(3,090)	(40,664)	(16,122)
Effect of movements in foreign exchange rates	(13,933)	11,446	(3,805)	6,646
Present value of defined benefit obligations at December 31	88,865	101,922	146,640	178,989

Movement in fair value of plan assets

	North American plans		European plans	
	2008	2007	**2008**	2007
Fair value of plan assets at January 1	67,347	59,460	126,497	120,123
Employer contributions	4,730	5,417	1,284	3,337
Contributions from plan participants	341	363	–	–
Benefits paid from the plan assets	(5,137)	(5,860)	(8,918)	(6,909)
Fair value of plan assets from GK acquisition	–	–	–	–
Administration fees	(128)	(70)	–	–
Expected return on plan assets	4,687	4,630	9,127	8,060
Unrecognized actuarial gains and (losses)	(16,462)	(3,708)	(50,420)	1,636
Effect of movements in foreign exchange rates	(8,133)	7,115	(137)	250
Fair value of plan assets at December 31	47,245	67,347	77,433	126,497

Expense (income) recognized in profit or loss

	North American plans		European plans	
	2008	2007	**2008**	2007
Current service costs	4,796	3,485	2,125	2,395
Interest on obligation	5,926	5,083	10,694	9,158
Expected return on plan assets	(4,687)	(4,630)	(9,127)	(8,060)
Administration fees	–	70	–	–
Recognized actuarial losses/(gains)	4,239	276	(10,613)	169
Amortization of vested past service cost	4	2,180	–	(500)
Special termination benefit	–	–	–	–
Subtotal of expense recognized in profit and loss	10,278	6,464	(6,921)	3,162
Curtailment impact recognized in profit and loss	822	–	–	(4)
Expense (income) recognized in profit and loss	11,100	6,464	(6,921)	3,158

Net income (expense) recognized in profit and loss

The expense is recognized in the following line items in the income statement:

	North American plans		European plans	
	2008	2007	**2008**	2007
Cost of sales	3,848	2,390	1,614	1,335
Selling, general and administrative expenses	7,252	4,074	(8,535)	1,823
	11,100	6,464	(6,921)	3,158

Amounts for the current and previous three periods are as follows:

North American Plans

	2008	2007	2006	2005
Defined benefit obligation	88,865	101,922	88,319	86,635
Plan assets	47,245	67,347	59,460	53,403
(Deficit)/surplus	(41,620)	(34,575)	(28,859)	(33,232)
Experience adjustments on plan liabilities	6,713	1,167	(762)	–
Experience adjustments on plan assets	(1,420)	(3,541)	1,251	–

European Plans

	2008	2007	2006	2005
Defined benefit obligation	146,640	178,989	186,267	192,374
Plan assets	77,433	126,497	120,123	100,723
(Deficit)/surplus	(69,207)	(52,492)	(66,144)	(91,651)
Experience adjustments on plan liabilities	(26,073)	(246)	(8,250)	–
Experience adjustments on plan assets	(50,411)	1,660	5,541	–

27. Share-based payments

AMG

On June 26, 2007, the Management Board established the AMG Option Plan (the "Plan"), which is eligible to members of the Management Board, Supervisory Board, employees, and consultants of the Company. Each option issued under the plan entitles the holder to acquire shares at a future date at a price equal to the fair market value of the share at the date on which the option was granted. One quarter of the options granted to each option holder on any date will vest on each of the first four anniversaries of the grant date. This vesting is not subject to any performance conditions. The options expire on the tenth anniversary of their grant date.

As detailed below during 2008, total grants under the Plan were 923,333 (2007: 1,455,000). As at December 31, 2008 grants exercised or expired were 52,500 (2007: nil) and grants forfeited were 27,500 (2007: 10,000). All options under the Plan are equity settled, in accordance with IFRS 2, by award of options to acquire ordinary shares or award of ordinary shares. The fair value of these awards has been calculated at the date of grant of the award. The fair value, adjusted for an estimate of the number of awards that will eventually vest, is expensed using a graded vesting methodology. The fair value of the options granted was calculated using a binomial expected life model. The assumptions used in the calculation are set out below.

During the year ended December 31, 2008, AMG, in conjunction with the AMG Option Plan, recorded share-based compensation amounting to $16,909 (2007: $3,768) which is included in selling and administrative expenses and cost of goods sold in the statement of operations.

Movements

	2008		2007	
In thousands of options	Number of Options	Weighted Average Exercise Price (in €)	Number of Options	Weighted Average Exercise Price (in €)
Outstanding at January 1	1,445	25.07	–	n.a.
Granted during the year	923	31.73	1,455	25.06
Forfeited during the year	(27)	35.64	(10)	24.00
Exercised during the year	(53)	42.28	–	n.a.
Outstanding at December 31	2,288	27.65	1,445	25.07
Exercisable at December 31	314	25.10	–	

313,750 options were exercisable as of December 31, 2008. No options were exercisable as of December 31, 2007.

At December 31, 2008, the number of common shares subject to options outstanding and exercisable was as follows:

Price Range	Outstanding Options (000's)	Weighted Average Exercise Price	Weighted Average Remaining Life	Exercisable Options (000's)	Weighted Average Exercisable Price
€12.70 to €24.00	1,588	€21.63	8.81	284	€24.00
€29.45 to €40.50	590	€39.09	9.45	18	€29.45
€44.00 to €64.31	110	€53.30	9.19	12	€44.00
	2,288	€27.65	8.99	314	€25.10

The maximum number of options that can be granted under the Plan is 10% of total shares outstanding up to a maximum of 50,000,000.

Assumptions

The following table lists the inputs into the binomial model used to calculate the fair value of the share-based payment options that were granted in 2008 and 2007:

	2008	2007
Exercise price	€12.70 – €64.31	€24.00 – €44.00
Share price at date of grant	€12.70 – €64.31	€29.50 – €44.00
Contractual life (years)	10	10
Dividend yield (%)	nil	nil
Expected volatility (%)	70.40% – 76.44%	70.40%
Risk-free interest rate (%)	4.07% – 4.17%	4.26% – 4.54%
Expected life of option (years)	1–4 years	1–4 years
Weighted average share price (€)	€38.16	€38.76
Expected departures (%)	4.0%	4.0%

The expected volatility was calculated using the average historical share volatility of the Company's peers (over a period equal to the expected term of the options). The expected volatility reflects the assumption that the calculated volatility of the Company's peers would be indicative of future trends, which may not be the actual outcome. The expected life is the time at which options are expected to vest, however this also may not be indicative of exercise patterns that may occur. The options vest in four equal tranches on the first, second, third and fourth anniversaries of the grant date, and therefore continued employment is a non-market condition for options to vest. The risk free rate of return is the yield on zero coupon three and five-year Dutch government bonds.

AMG's option expense is recorded in the share-based payment reserve (refer to note 19). The cumulative amount recorded in the share-based payment reserve in shareholders' equity, $19,277 (2007:$3,957) was grossed-up in 2007 for deferred taxes in the amount of $189. This deferred tax gross-up was reversed in 2008, due to the share price at the end of the year.

Metallurg Inc.

Metallurg, Inc established an option plan in November 1998 (The 1998 Equity Compensation Plan) with 500,000 shares available for options and awards. The options granted under the plan have a ten-year term and vest, in most cases, 20% on the date of the grant and 20% on each of the four anniversaries of the date of the grant. All options are to be settled by physical delivery of shares. The weighted average life of the remaining options is 1.6 years and the exercise price for all options is $30. As of December 31, 2007, 195,000 options were outstanding, fully vested and exercisable. All of these options expired in 2008.

All options under this plan were granted before November 7, 2002. In accordance with IFRS 1, the recognition and measurement principles in IFRS 2 have not been applied and instead, these options have been accounted for using US GAAP FAS 123, "Accounting for Stock-Based Compensation". Options were valued using the minimum value methodology. No new options have been granted since January 1, 2005 and all options were fully vested at January 1, 2006. Therefore, no compensation expense was recorded in the years ended December 31, 2008 and 2007.

Timminco

Stock options have been granted to certain key employees and directors to purchase common shares of Timminco subject to various vesting requirements. During 2004, Timminco established a Share Option Plan (the "Plan") which supersedes the Stock Option Plans for Directors and Key Employees. Under the Plan, options are granted at the discretion of the Board at an exercise price equal to the closing price of the common shares on the Toronto Stock Exchange on the last trading day preceding the day of grant. The options vest equally over a four-year period, with the initial 25% vesting after one year. The options have a life of seven years. The Plan was approved at the 2004 Annual and Special Meeting. On April 25, 2005, the Board of Directors approved an amendment to the Plan to increase the maximum number of shares that can be granted under the Plan by an additional 3,028,250. Stock options have been granted yearly and are captured in the chart below.

On November 11, 2008, the Board of Directors approved a new share option plan as part of a long-term incentive plan for key employees in the silicon operation. The options are granted with an exercise price at the fair market value of the Company's common shares, have a nine-year vesting schedule with 50% becoming exercisable only after the fifth anniversary of the grant date, and the remaining 50% vest equally on the sixth through ninth anniversary dates. The options will expire ten years after the grant. The total number of shares available for options under such new plan is 10 million, representing approximately 9.6% of the Company's issued and outstanding shares. This new share option plan will be submitted for approval by the Company's shareholders at the next annual general meeting, and is also subject to Toronto Stock Exchange approval. Options to purchase 7 million common shares of the Company were granted under this new share option plan. Since the new option plan has not been approved by the shareholders, the options are not considered granted under IFRS. However, services are being provided in conjunction with these options and therefore an estimated expense has been booked during the year ended December 31, 2008.

During the year ended December 31, 2008, Timminco recorded stock-based compensation amounting to $3,154 (2007: $439) which is included in selling and administrative expenses in the statement of operations.

A summary of the status of Timminco's two stock option plans as of December 31, 2008 and 2007 and changes during the years ended on those dates is presented below:

	2008		2007	
In thousands of options and Canadian Dollars	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at January 1	4,130	C$0.72	3,844	C$0.71
Granted during the year	7,940	C$7.97	1,250	C$0.79
Exercised during the year	(421)	C$0.61	(695)	C$0.87
Forfeited during the year	(300)	C$2.91	(269)	C$0.57
Outstanding at December 31	11,349	C$5.74	4,130	C$0.72
Exercisable at December 31	2,174	C$0.78	1,483	C$0.76

At December 31, 2008, the number of common shares subject to options outstanding and exercisable was as follows:

Price Range	Outstanding Options (000's)	Weighted Average Exercise Price	Weighted Average Remaining Life	Exercisable Options (000's)	Weighted Average Exercisable Price
C$0.29 to C$0.40	1,500	C$0.39	4.96	475	C$0.38
C$0.41 to C$0.96	1,909	C$0.79	2.97	1,687	C$0.82
C$7.64 to C$15.27	7,940	C$7.94	9.48	12	C$5.70
	11,349	C$5.74	7.79	2,174	C$0.78

The maximum number of common shares that can be subject to options granted under the 2004 Plan is 7,332,175 and under the 2008 Plan is 10,000,000.

Assumptions

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

	2008	2007
Exercise price	C$10.05 – C$13.27	C$0.19 – C$10.27
Share price at date of grant	C$10.05 – C$13.27	C$0.19 – C$10.27
Contractual life (years)	7 – 10	7
Dividend yield (%)	nil	nil
Expected volatility (%)	105.4 – 107.3%	76.6 – 328.9%
Risk-free interest rate (%)	3.25 – 4.05%	4.1 – 4.3%
Expected life of option (years)	7 – 10	7
Weighted average share price (€)	C$7.97	C$0.79

28. Provisions

	Environmental remediation	Restructuring	Warranty	Total
Balance at January 1, 2007	8,166	5,272	10,758	24,196
Provisions made during the period	2,107	(241)	8,321	10,187
Provisions used during the period	(2,262)	(3,331)	(3,362)	(8,955)
Currency and reversals	1,913	(332)	(2,042)	(461)
Balance at December 31, 2007	9,924	1,368	13,675	24,967
Balance at January 1, 2008	9,924	1,368	13,675	24,967
Provisions made during the period	5,233	5,129	13,782	24,144
Acquisitions	2,312	–	191	2,503
Provisions used during the period	(3,053)	(2,545)	(4,413)	(10,011)
Increase due to discounting	543	–	–	543
Currency and reversals	(1,099)	(363)	(5,498)	(6,960)
Balance at December 31, 2008	13,860	3,589	17,737	35,186
Non-current	10,904	913	1,024	12,841
Current	2,956	2,676	16,713	22,345
Balance at December 31, 2008	13,860	3,589	17,737	35,186
Non-current	6,656	919	4,436	12,011
Current	3,268	449	9,239	12,956
Balance at December 31, 2007	9,924	1,368	13,675	24,967

Environmental remediation

The Company makes provisions for environmental cleanup requirements, largely resulting from historical solid and hazardous waste handling and disposal practices at its facilities. Environmental remediation provisions exist at the following sites and are discounted according to the timeline of expected payments:

MVC: Cambridge, OH

The largest issues at the Cambridge, Ohio site relate to a 1997 permanent injunction consent order ("PICO") entered into with the State of Ohio and Cyprus Foote Mineral Company, the former owner of the site. While MVC and Cyprus Foote are jointly liable, MVC has agreed to perform and be liable for the remedial obligations. The site contains two on-site slag piles that are the result of many years of production. Under the PICO, these slag piles were required to be capped, thereby lowering the radioactive emissions from the piles.

MVC finalized remediation plans with the State of Ohio during 2003 and commenced work in accordance with such plans. Significant remediation activities were completed on one of the slag piles in 2004. The Company is nearing completion of all agreed work with less than $100 expected to be paid in 2009 for completion. In addition to the capital spending required for the actual cap on the slag piles, the Company has reserved for ongoing operations and maintenance expenses (O&M) at the site. This O&M is required to be provided for 1000 years and is expected to cost $2,783 on an undiscounted basis. Other environmental items requiring provision include: wetlands remediation, stormwater remediation and maintenance. These projects are expected to create cash outflows of $856, on an undiscounted basis, and are expected to be completed within the next 5 years.

SMC: Newfield, NJ

SMC has entered into administrative consent orders with the New Jersey Department of Environmental Protection under which SMC must conduct remediation activities at the Newfield facility. Since the initial administrative consent order was signed in 1997, many of the obligations of SMC have been completed.

In January 2006, SMC entered into a fixed price remediation contract with TRC Companies Inc. ("TRC"), whereby TRC assumes primary responsibility for all non-radiological groundwater environmental remediation obligations at the Newfield facility, with certain exceptions for one contaminant, perchlorate. The initiation of this remediation contract also led to a new Administrative Consent Order ("ACO") that was signed in February 2006. This ACO specifically designated TRC as the entity primarily responsible for the non-radiological contamination and also specifically cited SMC as responsible for the clean-up associated with any perchlorate contamination. This agreement was approved by the New Jersey Department of Environmental Protection (NJDEP) and received final approval by the US Environmental Protection Agency in March 2006. Under the terms of this agreement, SMC is required to make payments totalling $16,900 between 2006 and 2008, with $14,800 of that amount owed immediately upon the agreement becoming effective. The fixed-price remediation proposal substantially reduces SMC's risk with regard to the Newfield remediation program, but required a premium above previously estimated remediation costs. The initial $14,800 payment was made on April 12, 2006 and payments of $1,050 were made in March 2007 and March 2008.

Similar to the Cambridge, Ohio facility, Newfield also conducted operations that created a substantial slag pile with low-level radioactive materials. After SMC ceased the production operation that created this slag, it notified the NRC and commenced preparation of the decommissioning plan. This plan has been through technical review with the NRC. SMC is currently re-working the decommissioning plan to meet the NRC's expectations. Based on this plan, the costs to cap the slag pile are estimated to be $3,000 and are expected to be paid over the next 2 to 4 years. Until the capping is completed, SMC is required to pay the NRC for its oversight costs. Due to the time being spent on the review of the decommissioning plan, these costs have been in excess of the provision and an additional provision of $1,325 was recorded. In addition, SMC will have to provide O&M for the site for 1000 years, estimated to cost $4,100 on an undiscounted basis.

Remediation trust funds

SMC and MVC established trust funds to accumulate funds for future environmental remediation payments. Amounts are paid out from the trust fund following completion and approval of rehabilitation work. The contributions to the trust funds were placed with investment banks which are responsible for making investments in equity and money market instruments. The trust funds are to be used according to the terms of the trust deed which require that these funds be used for the 1000-year O&M at the sites. The assets are not available for the general use of SMC and MVC. The trust funds are discounted and are shown within Other non-current assets in the consolidated balance sheet. The discounted values of the trust funds at December 31, 2008 are $244 (2007: $132). The undiscounted amounts in the trust funds as of December 31, 2008 are $4,800 (2007: $4,624).

CIF: Sao Joao del Rei, Brazil

In the year ended December 31, 2008, CIF recorded an expense of $108 (2007:$103) related to a decommissioning liability at its mine. The total provision amount of $211 has been recorded after taking into effect the Brazilian laws that are in place related to decommissioning. The provision is based on the amount of ore removed from the mine and the expected cost to bring the mine back to government regulations in the case of a decommisioning. Also, through its normal production process at the mine in Brazil, CIF produces a waste product that requires special handling. In the year ended December 31, 2007, CIF recorded a provision of $35 in order to properly dispose of the waste that currently exists on-site. No such provision was necessary in 2008.

Timminco: Ontario, Canada

On June 6, 2008, Timminco reorganized its magnesium operations and announced the closure of its Haley, Ontario manufacturing facility. This closure accelerated recognition of certain environmental costs associated with the operations at Haley. The environmental expense recognized was $3,800. All other Haley closure expenses are included within the restructuring provision for 2008. $3,199 of the environmental provision for Timminco is expected to be paid out over the next 5 years. The remainder is expected to be paid out over a longer time horizon.

Timminco accrued $2,437 of environmental expense as at December 31, 2007, for the expected future site restoration and closure costs associated with its Haley operation.

Graphit-Kropfmühl: Hauzenberg, Germany

In April 2008, the Company acquired 79.52% of the outstanding shares of Graphit-Kropfmühl (GK). A recultivation provision was recorded on GK's books as it relates to its graphite mine in Germany and was recorded at fair value as part of the purchase accounting performed for this acquisition. The value of this provision as of December 31, 2008 was $2,125.

Restructuring

As a result of the global economic downturn that occurred in the year ended December 31, 2008, the Advanced Materials segment recorded restructuring costs of $2,283. $2,046 of this cost was severance due to the reduction of 65 people within the group. An additional $237 was accrued related to an onerous lease at one of the shutdown facilities.

Closure of Haley Facility

On June 6, 2008 Timminco announced the closure of its Haley, Ontario manufacturing facility. The Haley facility manufactured cast magnesium billet used in Timminco's magnesium extrusion operations in Aurora, Colorado and also produced specialty magnesium granules and turnings for third party customers. Cast magnesium billets will now be outsourced from other manufacturers and specialty magnesium granules and turnings will be produced at Timminco's Nuevo Laredo, Mexico facility.

The closure of the Haley facility resulted in severance costs of $2,250 which were the costs of a 39-person headcount reduction. The majority of severance payments accrued in 2008 is expected to be paid within twelve months.

In 2007, Timminco reversed $340 of an accrual booked during 2006 for expenses related to the expected Haley plant closure. The expenses were no longer expected to be paid.

In the year ended December 31, 2007, LSM reversed $128 related to a restructuring expense accrued in 2006 as it would no longer be realized. In the year ended December 31, 2007, SMC recorded $76 of additional asset impairment related to its plant closure during 2006.

In the year ended December 31, 2007, GfE recorded $150 of additional severance expense related to its 2006 restructuring plan.

Warranty

Our Engineering business offers certain warranties related to their furnace operations. These warranties are only provided on certain contracts and the provisions are made on a contract by contract basis. Each contractual warranty is expected to be utilized or derecognized within 12 months.

Other

Other is mainly comprised of a share purchase liability related to our Engineering Systems business. The share purchase liability relates to a subsidiary acquired in 2005. This liability was settled in the year ended December 31, 2008 with the remaining balance being reclassified as a reduction of goodwill.

29. Government grants

	Government Grants
Balance at January 1, 2007	–
Provisions made during the period	15,503
Provisions used during the period	–
Currency and reversals	1,009
Balance at December 31, 2007	16,512
Balance at January 1, 2008	16,512
Provisions made during the period	–
Provisions used during the period	(8,184)
Acquired through acquisition	655
Currency and reversals	(332)
Balance at December 31, 2008	8,651
Non-current	291
Current	8,360
Balance at December 31, 2008	8,651
Non-current	8,585
Current	7,927
Balance at December 31, 2007	16,512

As discussed in note 5, the Engineering Systems division has an obligation for personnel expenses relating to its site in Berlin. The State of Berlin obligates that at least 70 permanent jobs be maintained at the site by the end of 2007 and an additional 80 by the end of 2008 maintaining these 150 permanent jobs until the end of 2009. In the event of a breach of this contract, the Company is required to pay a penalty of €50,000 multiplied by the number of jobs less than 150 at the site at that time. There were 156 employees at the Berlin site as of December 31, 2008. Under government grant accounting, ALD established a provision for the personnel expenses which will be reduced by the income from the government grant over the expected term that these expenses will be incurred. The initial estimate of personnel expenses and revisions to those estimates led to one-time income recognition of $4,288 in the year ended December 31, 2008 (2007: $5,100). As of December 31, 2008, the entire remaining grant, in the amount of $8,183, was determined to be current since all amounts will be realized during the year ended December 31, 2009. As of December 31, 2007, the current and non-current portions of this provision were $7,927 and $8,585.

In the year ended December 31, 2008, AMG acquired 79.52% of GK. GK has a government grant obligation for personnel expenses relating to its investment in capital in the state of Bavaria, Germany. According to the grants received, GK has to create or maintain a certain number of employees over the course of the grant. The liability for the grant is being reduced over the lives of the assets that the grants funded. As of December 31, 2008, the current and non-current portions of the grants were $177 and $291 respectively.

30. Unearned Revenue

	Unearned Revenue
Balance at January 1, 2008	–
Deferred during the period	42,998
Released to the income statement	(1,822)
Currency and reversals	(5,552)
Balance at December 31, 2008	35,624
Non-current	–
Current	35,624
Balance at December 31, 2008	35,624

During the year ended December 31, 2008, Timminco received deposits from customers of $42,998 under the terms of solar grade silicon supply contracts. The amounts are non-interest bearing pre-payments to be applied against future deliveries of solar grade silicon at pre-determined rates specified in the contracts. In the event of an early termination or completion of a supply contract without full utilization of the deposit amount, any remaining balance on the deposit is to be repaid to the customer within a specified time period. If the remaining amount is not repaid within the specified time period it becomes interest bearing at rates specified in the contract. Timminco expects to fully utilize all pre-payment amounts against future sales and deliveries of solar grade silicon. Timminco is currently negotiating a contract extension with one customer for periods beyond December 31, 2009. If this contract is not extended, up to $14,621 million of advances will be repayable in 2010. For the year ended December 31, 2008, $1,822 has been drawn down through shipments of finished products to customers.

31. Other liabilities

Other liabilities are comprised primarily of the following:

	2008	2007
Accrued bonus	13,502	10,402
Accrued interest	3,800	2,046
Accrued professional fees	7,410	6,769
Accrued employee payroll expenses	6,010	4,170
Accruals for operational costs	4,632	2,171
Claims	3,652	3,635
Fiscal contingency	2,821	2,891
Other benefits and compensation	8,926	8,620
Taxes, other than income	4,572	3,330
Other miscellaneous liabilities	7,802	7,409
	63,127	51,443
Thereof:		
Current	53,882	42,356
Long-Term	9,245	9,087

32. Trade and other payables

	2008	2007
Trade payables	140,207	102,894
Trade payables – percentage of completion	16,490	23,933
	156,697	126,827

The Company has limited exposure to payables denominated in currencies other than the functional currency, and where significant exposure exists enters into appropriate foreign exchange contracts.

- Trade payables are non-interest bearing and are normally settled on 30 or 60-day terms with the exception of payables related to project accounting that settle between one month and twelve months.
- Other payables are non-interest bearing and have an average term of six months
- Interest payable is normally settled quarterly throughout the financial year
- For terms and conditions relating to related parties, refer to note 24

33. Financial risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, comprise loans and borrowings, related party debt, short term debt and trade payables. The main purpose of these financial instruments is to provide capital for the Company's operations, including working capital needs as well as capital improvements and expansion. The Company has various financial assets such as trade and other receivables and cash, which arise directly from its operations.

The Company also enters into derivative financial instruments, primarily interest rate caps and swaps, foreign exchange forward contracts and commodity contracts. The purpose of these instruments is to manage interest rate, currency and price risks. The Company does not enter into any contracts for speculative purposes.

The Supervisory Board has overall responsibility for the establishment of the Company's risk management framework while the Management Board is responsible for oversight and compliance with this framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The main risks arising from the Company's financial instruments are: credit, liquidity, interest rate, foreign currency, and commodity.

Credit risk

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

The Company's exposure to credit risk with respect to trade and other receivables is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. No single customer accounts for more than 10% of the Company's revenue and geographically, there are no concentrations of credit risk. The Company trades only with creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures which ensure their creditworthiness. In addition, receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to impairment losses is not significant. Collateral is generally not required for trade receivables, although the Company's percentage of completion contracts do often require advanced payments. The Company's maximum exposure is the carrying amount as discussed in note 16.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and certain derivative instruments, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of the instruments. The Company's Treasury function monitors the location of cash and cash equivalents and the counterparties to hedges and monitors the strength of those banks. Bank strength is presented to the Supervisory Board at least annually. This review is set to minimise the concentration of risks and therefore mitigate potential financial loss through counterparty failure.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company monitors cash flows at varying levels. At the Company level, this monitoring is done on a weekly basis. However, at certain subsidiaries, this type of monitoring is done daily. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of eight weeks, including the servicing of financial obligations. In addition, the Company maintains the following lines of credit:

- $175,000 revolving credit facility with a syndicate of banks that is secured by the assets of the material subsidiaries of the Company. Interest is payable at a base rate + a spread based on a coverage ratio.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2008 based on contractual undiscounted payments.

2008	Contractual Cash Flows	< 3 months	3–12 months	2010	2011	2012	2013	> 2013
Term Loan	108,289	–	–	–	–	108,289	–	–
Cash interest on term loan	13,312	–	4,418	3,040	2,986	2,868	–	–
Fixed rate loans and borrowings	27,242	187	921	1,214	1,507	15,438	1,342	6,633
Floating rate loans and borrowings	8,232	534	1,353	1,711	1,711	1,712	1,211	–
Cash interest on loans and borrowings	11,011	769	2,072	2,568	2,419	1,624	397	1,162
Related party debt	5,748	–	–	5,748	–	–	–	–
Interest on related party debt	819	–	–	819	–	–	–	–
Foreign exchange forward contracts	5,248	3,416	1,832	–	–	–	–	–
Commodity forward contracts	3,971	2,057	1,912	2	–	–	–	–
Other derivative financial instruments	2,963	18	509	1,840	221	187	124	64
Financial lease liabilities	480	63	197	135	59	25	1	–
Pension plan obligations	137,959	1,497	5,236	6,835	7,312	7,426	7,246	102,407
Environmental remediation liabilities	14,312	334	1,001	1,033	3,448	3,191	1,292	4,013
Trade and payables	156,697	138,036	18,661	–	–	–	–	–
Short term bank debt	83,566	29,671	11,870	42,025	–	–	–	–
Deferred revenue	35,624	2,846	18,043	14,735	–	–	–	–
Other	39,805	25,010	8,120	1,950	1,339	1,387	1,116	883
Total Payments	**655,278**	**204,438**	**76,145**	**83,655**	**21,002**	**142,147**	**12,729**	**115,162**

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2007 based on contractual undiscounted payments.

2007	Contractual Cash Flows	< 3 months	3–12 months	2009	2010	2011	2012	> 2012
Term Loan	103,685	–	–	–	–	–	103,685	–
Cash interest on term loan	30,468	–	6,094	6,094	6,095	6,095	6,090	–
Fixed rate loans and borrowings	21,824	32	751	790	712	651	15,253	3,635
Floating rate loans and borrowings	134	–	134	–	–	–	–	–
Cash interest on loans and borrowings	7,160	21	1,378	1,363	1,322	1,301	850	925
Related party debt	7,752	7,752	–	–	–	–	–	–
Interest on related party debt	636	636	–	–	–	–	–	–
Foreign exchange forward contracts	3,238	1,049	2,189	–	–	–	–	–
Commodity forward contracts	1,415	599	783	33	–	–	–	–
Financial lease liabilities	671	55	195	263	115	43	–	–
Pension plan obligations	144,094	2,939	7,282	8,949	8,983	8,980	8,975	97,986
Environmental remediation liabilities	9,911	311	144	303	2,140	2,076	1,076	3,861
Trade and payables	126,827	126,384	443	–	–	–	–	–
Short term bank debt	16,265	5,704	10,561	–	–	–	–	–
Other	37,032	13,379	13,802	2,265	2,648	2,080	1,231	1,627
Total Payments	**511,112**	**158,861**	**43,756**	**20,060**	**22,015**	**21,226**	**137,160**	**108,034**

Interest on financial instruments classified as floating rate is generally repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The difference between the contractual cash flows and the carrying amount of the term loan noted above is attributable to issuance costs in the amount of $7,540 and $9,023 as of December 31, 2008 and 2007, respectively, which are offset against the carrying amount of the debt.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Company's income or the value of its holdings of financial instruments. The Company's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Company's floating rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not exposed to interest rate risk.

The Company's current policy is to maintain approximately 60% of its borrowings as fixed rate borrowings. The Company either enters into fixed rate debt or strives to limit the variability of certain floating rate instruments through the use of interest rate caps or interest rate swaps. These are designed to hedge underlying debt obligations. At December 31, 2008, after taking into account the effect of interest rate swaps, approximately 59% of the Company's borrowings are at a fixed rate of interest (2007: 85%)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates adjusting for multiple interest rate swaps effective as at December 31, 2008 (2007: one swap), with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings). Changes in sensitivity rates reflect various changes in the economy year-over-year. There is no impact on the Company's equity.

2008	Increase/decrease in basis points	Effect on profit before tax
USD ***		(130)
Euro	+5	(2)
CAD	+5	(3)
USD ***		137
Euro	-10	4
CAD	-20	13

2007	Increase/decrease in basis points	Effect on profit before tax
USD	+20	(31)
Euro	+10	(1)
CAD	+20	(9)
USD	-20	31
Euro	-10	1
CAD	-20	9

*** Historic volatility on certain USD short term debt varies across a wide range from +100 basis points to -25 basis points. Sensitivities are calculated on the actual volatility for each debt instrument.

See note 23 for loans and borrowings explanations.

At December 31, 2008, the Company's interest rate swaps had a fair value of ($3,565) (2007: $126). Per the agreements, the Company pays a fixed rate and receives a floating rate based on the 6 month, 3 month or 1 month USD EURIBOR. The following table demonstrates the sensitivity to a reasonably possible change in interest rates using the EURIBOR swap curve with all other variables held constant, on the Company's equity and profit before tax. There is impact on the Company's profit before tax for one ineffective interest rate swap at December 31, 2008. Changes in sensitivity rates reflect various changes in the economy year-over-year.

2008	Increase/decrease in basis points	Effect on equity	Effect on profit before tax
USD	+5	(155)	10
USD	-10	(487)	(19)

2007	Increase/decrease in basis points	Effect on equity	Effect on profit before tax
USD	+10	463	–
USD	-10	(121)	–

Currency risk

Currency risk is the risk that changes in foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. Many of the Company's subsidiaries are located outside the US. Individual subsidiaries execute their operating activities in their respective functional currencies which are comprised of the US Dollar, Euro and Canadian Dollar. Since the financial reporting currency of the Company is US Dollar, the financial statements of those non US Dollar operating subsidiaries are translated so that the financial results can be presented in the Company's consolidated financial statements.

Each subsidiary conducting business with third parties that leads to future cash flows denominated in a currency other than its functional currency is exposed to the risk from changes in foreign exchange rates. It is the Company's policy to use forward currency contracts to minimize the currency exposures on net cash flows. For certain subsidiaries, this includes managing balance sheet positions in addition to forecast and committed transactions. For these contracts, maturity dates are established at the end of each month matching the net cash flows expected for that month. For another subsidiary, all sales transactions in excess of €20 are hedged specifically. For this subsidiary, the contracts mature at the anticipated cash requirement date. Generally, all forward exchange contracts mature within twelve months and are predominantly denominated in US Dollars, British Pound Sterling and Euros. When established, the forward currency contract must be in the same currency as the hedged item. It is the Company's policy to negotiate the terms of the hedge derivatives to closely match the terms of the hedged item to maximise hedge effectiveness. The Company seeks to mitigate this risk by hedging at least 70% of transactions that occur in a currency other than the functional currency.

In respect of monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

The Company deems its primary currency exposures to be in US Dollars, Euros and Canadian Dollars. The following table demonstrates the sensitivity to a reasonably possible change in the three functional currencies of the Company: US Dollar, Euro and Canadian Dollar exchange rates with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Company's equity (due to changes in the fair value of forward exchange contracts). Changes in sensitivity rates reflect various changes in the economy year-over-year.

2008	Strengthening/ (weakening) in functional rate	Effect on profit before tax	Effect on equity before tax
US Dollar	+10%	(145)	478
Euro	+5%	(6)	161
Canadian Dollar	+5%	469	–
US Dollar	-5%	54	(196)
Euro	-10%	(57)	(538)
Canadian Dollar	-10%	(1,162)	–

2007	Strengthening/ (weakening) in functional rate	Effect on profit before tax	Effect on equity before tax
US Dollar	+5%	(2,567)	2,612
Euro	+5%	(1,385)	3,707
Canadian Dollar	+5%	(754)	–
US Dollar	-5%	3,243	(1,606)
Euro	-5%	772	(2,281)
Canadian Dollar	-5%	719	–

Commodity price risk

Commodity price risk is the risk that certain raw materials prices will increase and negatively impact the gross margins and operating results of the Company. The Company is exposed to volatility in the prices of raw materials used in some products and uses forward contracts to manage some of these exposures. For certain metals, the Company aims to maintain a greater than 50% hedged position in order to avoid undue volatility in the sales prices and purchase costs attained in the normal course of business. Commodity forward contracts are generally settled within twelve months of the reporting date. Changes in sensitivity rates reflect various changes in the economy year-over-year.

2008	Change in rate	Effect on profit before tax	Effect on equity before tax
Aluminum	+5%	236	38
Nickel	+5%	20	–
Copper	+5%	(33)	(13)
Aluminum	-10%	(472)	(77)
Nickel	-10%	(39)	–
Copper	-10%	66	25

2007	Change in rate	Effect on profit before tax	Effect on equity before tax
Aluminum	+5%	(263)	735
Nickel	+10%	46	–
Copper	+10%	(62)	–
Aluminum	-5%	263	(735)
Nickel	-10%	(46)	–
Copper	-10%	62	–

Capital Management

The primary objective of the Company is to maintain strong capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of economic conditions. Its policy is to ensure that the debt levels are manageable to the Company and that they are not increasing at a level that is in excess of the increases that occur within equity. During the planning process, the expected cash flows of the Company are evaluated and the debt to equity and debt to total capital ratios are evaluated in order to ensure that levels are improving year-over-year. Debt to total capital is a more appropriate measure for the Company due to its initial equity values of the subsidiaries from the combination in 2007. Management deems total capital to include all debt (including short term, related party debt and long-term debt) as well as the total of the equity of the Company, including minority interest.

The Company's policy is to try to maintain this ratio below 50%.

	2008	2007
Loans and borrowings	142,011	116,828
Related party loans	6,456	7,752
Short term bank debt	83,566	16,202
Trade payables	156,697	126,827
Less cash and cash equivalents	143,473	172,558
Net debt	245,257	95,051
Net debt	245,257	95,051
Total equity	311,811	309,797
Total capital	557,068	404,848
Debt to total capital ratio	0.44	0.23

34. Financial instruments

Fair values

Set out below is a comparison by category of the carrying amounts and fair values of all of the Company's financial instruments that are presented in the financial statements:

		2008		2007	
	Note	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Current financial assets					
Derivatives in effective hedges	32	538	538	2,873	2,873
Financial assets at fair value through profit or loss	32	5,855	5,855	709	709
Investments in equity securities	14	4,679	4,679	3,859	3,859
Trade and other receivables	15	173,422	173,422	187,243	187,243
Short term investments	16	95	95	15,333	15,333
Cash and cash equivalents	18	143,473	143,473	172,558	172,558
Total current financial assets		328,062	328,062	382,575	382,575
Non-current financial assets					
Derivatives in effective hedges	32	–	–	194	194
Floating rate notes receivable	36	2,132	2,132	7,068	7,068
Restricted cash	17	15,889	15,889	14,582	14,582
Total non-current financial assets		18,021	18,021	21,844	21,844
Current financial liabilities					
Derivatives in effective hedges	32	9,895	9,895	4,876	4,876
Financial current liabilities at fair value through profit or loss	32	5,524	5,524	118	118
Fixed rate loans and borrowings	21	2,844	2,844	1,102	1,102
Floating rate loans and borrowings	21	177	177	–	–
Short term bank debt	23	83,566	83,566	16,202	16,202
Related party debt	22	6,456	6,456	7,752	7,752
Unearned revenue	28	35,624	35,624	–	–
Trade and other payables	31	156,697	156,697	126,827	126,827
Total current financial liabilities		300,783	300,783	156,877	156,877
Non-current financial liabilities					
Financial non-current liabilities at fair value through profit or loss	32	3,530	3,530	77	77
Fixed rate loans and borrowings	21	121,990	122,866	115,592	124,384
Floating rate loans and borrowings	21	17,000	17,000	134	134
Total non-current financial liabilities		142,520	143,396	115,803	124,595

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate the fair values.

- Short term assets and liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.
- The calculation of fair value for derivative financial instruments depends on the type of instruments: Derivative interest rate contracts are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument; Derivative currency and commodity contracts are based on quoted forward exchange rates and commodity prices, respectively.
- Floating rate loans and borrowings and notes receivable maintain a floating interest rate and therefore approximate fair value.
- The fair value of fixed rate loans and borrowings are estimated by discounting future cash flows using rates currently available for debt.
- The Company has strategic investments in certain growth-based companies in Germany and Iceland. These equity investments cannot be reliably measured at fair value and are therefore accounted for using a cost basis. As of December 31, 2008 and 2007, these investments amounted to $4,679 and $3,859, respectively, and are included in other assets in the consolidated balance sheet. As of December 31, 2007, one of the investments was classified as an associate but due to the 19.01% control, has been reclassified to other assets.

Hedging activities

Interest rate hedges

In October 2007, the Company entered into an interest rate hedge agreement for the entire drawdown of the term loan which was €71.5 million (see note 23). This interest rate swap was executed so that the Company could hedge its exposure to changes in the benchmark interest rate on the term loan. This swap agreement provides for a fixed annual interest rate of 4.457% paid semi-annually by AMG and a semi-annual payment by the counterparty of EURIBOR expiring in 2010. Management has designated the interest rate swap as a cash flow hedge of the fore-casted interest payments on the debt. Since the hedge was entered into with the same party as the term loan, Credit Suisse, no payments are received under the contract; rather they are offset against the Company's interest expense on the term loan. At December 31, 2008, the fair value of the interest rate swap was ($2,711) (2007: $126).

GK entered into five interest rate hedges for a variety of floating rate debt instruments to minimize interest rate risk. The swap agreements provide for fixed interest rates paid either monthly or quarterly by the Company and a payment made by the counterparty of EURIBOR. The con-tracts expire between 2009 and 2013 depending on each contract's underlying debt maturity. Management has designated the interest rate swaps as cash flow hedges of the forecasted interest payments on each respective debt. At December 31, 2008, the fair value of the various interest rate swaps was ($854).

In September 2005, Metallurg entered into an interest rate cap contract to hedge its exposure to changes in the benchmark interest rate on the $50 million Class B Notes. Management designated the interest rate cap as a cash flow hedge of the forecasted interest payments on the debt. This interest rate cap was liquidated in August 2007 contemporaneously with the debt extinguishment in the US (see note 23). Upon liquidation, the Company recognized a $361 gain.

Sudamin entered into two interest rate caps in April 2005 with a notional value of €8.5 million (approximately $11,217 at December 31, 2006) to minimize its exposure to changes in the benchmark interest rate on the revolving credit facilities that the entity has with ING and Fortis. The caps were not designated as cash flow hedges at the inception of the contracts. The contract was recognized as a finan-cial instrument at fair value through profit or loss. These caps were liquidated in September 2007 when the debt that they were hedging was paid off (see note 23). A gain was recognized on this liquidation in the amount of $165 in the income statement as an offset to interest expense.

One interest rate swap contract was ineffective as at December 31, 2008. The ineffectiveness recognized in profit or loss that arose from this contract was an increase to interest expense of $280 in the year ended December 31, 2008 (2007: nil). The amount from cash flow hedges included in equity was($3,565) and $126 in the years ended December 31, 2008 and 2007, respectively. During the years ended December 31, 2008 and 2007, $455 and $361, respectively, were transferred from equity to the income statement as decreases to interest expense.

Commodity forward contracts

The Company is exposed to volatility in the prices of raw materials used in some products and uses commodity forward contracts to manage these exposures. Such contracts generally mature within twelve months.

The open commodity forward contracts as at Decem-ber 31, 2008 are as follows:

	Metric Tons	Average price	Fair value
US Dollar denominated contracts to purchase commodities:			
Aluminum forwards	4,000	2,310	(3,157)
Copper forwards	225	6,730	(845)
US Dollar denominated contracts to sell commodities:			
Aluminum forwards	925	1,490	33
Copper	25	3,072	4

The open commodity forward contracts as at Decem-ber 31, 2007 are as follows:

	Metric Tons	Average price	Fair value
US Dollar denominated contracts to purchase commodities:			
Aluminum forwards	7,400	2,538	(1,488)
Nickel forwards	50	7,575	(43)
US Dollar denominated contracts to sell commodities:			
Aluminum forwards	1,025	2,832	32
Copper	50	7,610	45

Due to the economic recession, there were less pur-chases and sales of commodities at the end of 2008 than originally planned. Therefore, some contracts no longer received hedge accounting treatment. The amount of ineffectiveness recognized in profit or loss that arose from the commodity cash flow hedges in the years ended December 31, 2008 was an increase of $2,142 to cost of sales (2007: nil). The amounts from the commodity cash flow hedges included in equity was($4,325) and ($1,454) in the years ended December 31, 2008 and 2007, respec-tively. During the years ended December 31, 2008 and 2007, $1,148 and $1,425, respectively, were transferred from equity to the income statement as decreases to cost of sales.

Foreign currency forward contracts

At any point in time, the Company also uses foreign exchange forward contracts to hedge a portion of its estimated foreign currency exposure in respect of: forecasted sales and purchases; and intergroup loans that will be repaid in different functional currencies. These contracts are negotiated to match the terms of the commitments and generally mature within one year. When necessary, these contracts are rolled over at maturity. Some foreign exchange forward contracts have been designated as cash flow hedges, while other contracts, although part of the risk management strategy, have not met the documentation requirements for hedge accounting and are therefore treated as economic hedges. AMG also entered into 3 fair value hedge contracts during 2007. There were no fair value contracts as at December 31, 2008.

The open foreign exchange forward sales contracts as at December 31, 2008 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
Cash Flow Hedges				
Euro (versus USD)	€15.9 million	1.386	331	(314)
USD (versus Euro)	$31.1 million	1.469	202	(2,188)
Economic Hedges				
USD (versus Euro)	$10.3 million	1.419	74	(454)
USD (versus CAD)	$9.0 million	1.237	29	–
Euro (versus CAD)	€12.0 million	1.580	–	(1,224)
Euro (versus USD)	€71.1 million	1.413	5,644	(2,438)
Peso (versus USD)	Peso 42.6 million	13.560	60	–

The open foreign exchange forward sales contracts as at December 31, 2007 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
Fair Value Hedges				
Euro (versus USD)	€75.0 million	1.436	–	(1,869)
Cash Flow Hedges				
Euro (versus USD)	€35.0 million	1.421	51	(1,419)
USD (versus Euro)	$59.8 million	1.397	2,782	
Economic Hedges				
USD (versus Euro)	$31 million	1.408	484	(18)
Euro (versus CAD)	€12.0 million	1.461	227	(95)

The open foreign exchange forward purchase contracts as at December 31, 2008 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
Cash Flow Hedges				
USD (versus Peso)	Peso 42.6 million	13.225	–	(139)
USD (versus Euro)	$4.0 million	1.357	17	(103)
Pound Sterling (versus USD)	£14.8 million	1.606	–	(2,365)
Brazil Reais (versus USD)	R$ 20.9 million	1.896	–	(2,158)

The open foreign exchange forward purchase contracts as at December 31, 2007 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
Cash Flow Hedges				
Euro (versus USD)	€1.5 million	1.364	–	(116)
Brazil Reais (versus USD)	R$ 10.3 million	1.852	29	(24)

There was no ineffectiveness recognized in profit or loss that arose from the foreign currency cash flow hedges in the years ended December 31, 2008 and 2007. The amounts from the foreign currency cash flow hedges included in equity were ($6,717) and $1,592 in the years ended December 31, 2008 and 2007, respectively. During the years ended December 31, 2008 and 2007, ($1,091) and $134, respectively, were transferred from equity to the income statement as (increases)/decreases to cost of sales.

As at December 31, 2007, a loss of $1,869 and a gain of $970 were recognized in the income statement on the fair value hedging instruments and the hedged item, respectively. The net foreign currency effect was a loss of $891. There were no fair value hedges as at December 31, 2008.

35. Leases

Operating leases as lessee

The Company has entered into leases for office space, facilities and equipment. The leases generally provide that the Company pays the tax, insurance and maintenance expenses related to the leased assets. These leases have an average life of 5–7 years with renewal terms at the option of the lessee at lease payments based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases.

The Company also holds a hereditary land building right at its Berlin location. This building right requires lease payments to be made annually and does not expire until 2038.

Future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

Non-cancellable operating lease rentals are payable as follows:

	2008	2007
Less than one year	9,754	8,650
Between one and five years	26,811	24,428
More than five years	11,035	12,619
	47,600	45,697

During the year ended December 31, 2008 $10,329 was recognized as an expense in the income statement in respect of operating leases (2007: $9,158).

Finance leases as lessee

Certain subsidiaries of the Company have finance leases for equipment and software. These non-cancellable leases have remaining terms between one and five years.

Future minimum lease payments under finance leases are as follows:

	2008	2007
Less than one year	260	265
Between one and five years	220	427
Total minimum lease payments	480	692
Less amounts representing finance charges	(77)	(40)
Present value of minimum lease payments	403	652

36. Capital commitments

The Company's capital expenditures include projects related to improving the Company's operations, productivity improvements, replacement projects and ongoing environmental requirements (which are in addition to expenditures discussed in "Environmental Remediation Provisions" above). As of December 31, 2008, the Company had committed to capital requirements in the amount of $31,474 (2007: $4,306).

37. Contingencies

Guarantees

The following table outlines the Company's off-balance sheet credit-related guarantees and business-related guarantees for the benefit of third parties as of December 31, 2008 and 2007:

	Business-related Guarantees	Credit-related Guarantees	Letters of Credit	Total
2008				
Total Amounts Committed:	53,163	8,614	5,357	67,134
Less than 1 year	44,690	8,614	271	53,575
2 – 5 years	2,903	–	–	2,903
After 5 years	5,570	–	5,086	10,656
2007				
Total Amounts Committed:	98,370	198	5,787	104,355
Less than 1 year	81,072	198	83	81,353
2 – 5 years	9,976	–	–	9,976
After 5 years	7,322	–	5,704	13,026

In the normal course of business, the Company has provided indemnifications in various commercial agreements which may require payment by the Company for breach of contractual terms of the agreement. Counterparties to these agreements provide the Company with comparable indemnifications. The indemnification period generally covers, at maximum, the period of the applicable agreement plus the applicable limitations period under law. The maximum potential amount of future payments that the Company would be required to make under these indemnification agreements is not reasonably quantifiable as certain indemnifications are not subject to limitation. However, the Company enters into indemnification agreements only when an assessment of the business circumstances would indicate that the risk of loss is remote.

As discussed in note 5, the Engineering Systems division has an obligation for personnel expenses relating to its investment site in Berlin. The State of Berlin obligates that at least 70 permanent jobs be maintained at the site by the end of 2007 and an additional 80 by the end of 2008 maintaining these 150 permanent jobs until the end of 2009. In the event of a breach of this contract, the Company is required to pay a penalty of €50,000 multiplied by the number of jobs less than 150 at the site at that time. There were 156 employees at the Berlin site as of December 31, 2008.

The Company has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counter-parties. The Company has $75 million in directors' and officers' liability insurance coverage.

Environmental

As discussed in note 28, SMC entered into a fixed price remediation contract with an environmental consultant, whereby that consultant became primarily responsible for certain aspects of the environmental remediation. SMC is still a secondary obligor for this remediation, in the event that the consultant does not perform.

The Company has other contingent liabilities related to certain environmental regulations at certain locations. LSM may be subject to certain regulations on accidents and hazardous substances with which the site does not currently comply. These regulations could impose compliance costs over a five-year period in the range of $500 – $2,000. At SMC, a provision has been recorded for the low-level radioactive slag pile (see note 28) which assumes that the Company will be able to remediate the pile using a long-term control license. However, this alternative has been challenged by certain governmental authorities. The second alternative, which the Company believes is not probable, is an offsite disposal alternative. This alternative could potentially cost up to $63,000. The timing of the payments related to this contingent liability are uncertain due to the legal process that would ensue prior to this occurring. Finally, environmental regulations in France require monitoring of wastewater and potential clean-up to be performed at the Sudamin plant site in Chauny. Although the extent of these issues is not yet known, there is a possibility that the Company could incur remediation costs in excess of $1,000.

In accordance with applicable law, Timminco is required to file a Mine Closure Plan with the Ontario Ministry of Northern Development and Mines (the "Ministry") with respect to the Haley, Ontario facility together with appropriate financial assurance covering its obligations pursuant to the plan. Timminco is required to provide financial assurance of $1,389 by way of cash deposits over a period of 5 years or sooner, depending on the financial results of the Company. To date, $900 has been deposited with the Ministry and the Company expects to deposit the balance in equal instalments over the next 2 years.

Litigation

In addition to the environmental matters, which are discussed above and in note 28, the Company and its subsidiaries defend, from time to time, various claims and legal actions arising in the normal course of business. Management believes, based on the advice of counsel, that the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. There can be no assurance, however, that existing or future litigation will not result in an adverse judgment against the Company that could have a material adverse effect on the future results of operations or cash flows.

38. Related parties

Transactions with key management personnel

Key management personnel compensation

Dr. Schimmelbusch and Mr. Spector are the Chief Executive Officer and Deputy Chairman, respectively, for the Company, and in these positions receive salaries, benefits and perquisites from the Company.

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf.

The compensation of the management board of the Company comprised:

For the year ended December 31, 2008	Salaries and bonus (a)	Option compensation (b)	Post-employment benefits including contributions to defined contribution plans	Other remuneration (c)	Total
Dr. Heinz Schimmelbusch	2,424	2,558	1,270	278	6,530
Arthur Spector	1,840	1,832	1,400	25	5,097
Eric Jackson	1,133	892	159	40	2,224
Dr. Reinhard Walter	1,224	892	52	28	2,196
William J. Levy	888	883	30	30	1,831
Total	7,509	7,057	2,911	401	17,878

For the year ended December 31, 2007	Salaries and bonus (a)	Option compensation (b)	Post-employment benefits including contributions to defined contribution plans	Other remuneration	Total
Dr. Heinz Schimmelbusch	2,218	523	1,933	–	4,674
Arthur Spector	1,924	468	2,102	–	4,494
Eric Jackson	995	189	149	11	1,344
Dr. Reinhard Walter	865	189	39	–	1,093
William J. Levy	750	189	23	9	971
TOTAL	6,752	1,558	4,246	20	12,576

(a) In the year ended December 31, 2008, Dr. Schimmelbusch received a salary from Timminco in his role as chief executive officer in the amount of $189. In the year ended December 31, 2007, Dr. Schimmelbusch and Mr. Spector each received a one-time bonus from Timminco in the amount of $375.

(b) Option compensation represents the option expense recognized during the year based on the fair value calculations performed for the options. Dr. Schimmelbusch and Mr. Spector have options at Timminco in addition to their options at AMG. Compensation for Timminco options in 2008 for Dr. Schimmelbusch and Mr. Spector was $518 and $38, respectively. Compensation for Timminco options in 2007 for Dr. Schimmelbusch and Mr. Spector was $98 and $90, respectively.

(c) Dr. Schimmelbusch and Mr. Spector received directors compensation in 2008 from Timminco in the amount of $187 and $25, respectively. Dr. Schimmelbusch also received compensation in 2008 from Graphit-Kropfmühl in his capacity as Supervisory Board member in the amount of $35. Other compensation also includes car expenses and additional insurance paid for by the Company.

Each member of the management board has an employment contract with the Company which provides for severance in the event of termination without cause. The maximum severance payout is limited to two years base salary and two years of target annual bonus.

The compensation of the Supervisory Board of the Company comprised:

For the year ended December 31, 2008	Cash remuneration	Share remuneration	Total compensation
Pedro Pablo Kuczynski	75	33	108
Jack Messman (a)	129	27	156
General Wesley Clark	50	22	72
Dr. Andrei Bougrov(b)	25	–	25
Norbert Quinkert	63	22	85
Guy de Selliers	63	22	85
Total	405	126	531

For the year ended December 31, 2007	Cash remuneration	Share remuneration	Total compensation
Pedro Pablo Kuczynski	38	32	70
Jack Messman	31	25	56
General Wesley Clark	25	21	46
Dr. Andrei Bougrov	25	–	25
Norbert Quinkert	31	21	52
Guy de Selliers	31	21	52
Total	181	120	301

(a) Jack Messman is a member of the Timminco Board of Directors in addition to his responsibilities on the Company's Supervisory Board. Therefore, cash remuneration includes amounts paid to him by Timminco in the amount of $66 (2007: $45).

(b) Dr. Andrei Bougrov resigned from the Supervisory Board in June 2008 and has not yet been replaced.

Timminco and Allied Resources Corporation, whose Chairman is also the Chief Executive Officer of the Company, share the cost of one of the officers of Timminco. During 2008, the Company contributed $405 (2007: $290) to the cost of the remuneration of the officer of the Company.

Entities with significant influence over the Company

Safeguard International Fund owns approximately 26.6% of the voting shares of the Company. Two members of the management board of the Company are also managing directors of Safeguard International Fund and receive compensation for their role as managing directors. The relatives of Directors hold only a de minimus portion of the voting shares.

A number of key management personnel, or their related parties, hold positions in other group entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel and their related parties on an arm's length basis.

Loans and Receivables

See note 24 for specific related party debt included in these consolidated financial statements.

Between January 2004 and May 2007, ALD entered into a series of loan agreements with Intellifast GmbH (formerly known as PFW Technologies GmbH), a subsidiary of Safeguard and PFW LLC, in an aggregate principal amount of $1,706. At December 31, 2008, approximately $2,148 (2007: $2,253) was outstanding under these loans and an additional amount of approximately $422 (2007: $222) was due for normal course of business transactions. The loans were made for growth capital and expansion purposes. The highest interest rate on the outstanding loans is three-month EURIBOR plus 5%.

The Company has been performing services for and has loaned money to GfE Medical which is a subsidiary of Safeguard. As at December 31, 2007, GfE Medical owed approximately $1,230 to the Company. During the year ended December 31, 2008, one loan from GfE Medical was transferred to Safeguard and Safeguard is now responsible for payment of this loan. As of December 31, 2008, $538 and $679 are owed to the Company by GfE Medical and Safeguard, respectively. In case of default by GfE Medical, the Company has received a letter from Safeguard that Safeguard will reimburse the loan.

ALD also entered into a series of loan agreements with ALD International LLC, a subsidiary of Safeguard, in 2005 and 2006. These loans were all repaid in 2007 and aggregate amounts owed to ALD by ALD International LLC as of December 31, 2008 and December 31, 2007 were nil.

During the year ended December 31, 2008 the Company loaned Fundo $3,812 (2007: $4,570) to assist Fundo with its working capital requirements. The loans are due on prescribed dates in 2009 and 2010, bear interest at three month NIBOR plus 4% and in certain circumstances are repaid in quarterly instalments commencing in 2009. The loans are secured by a charge against Fundo's land, buildings and equipment and are subordinate to Fundo's bank debt. The loans are convertible into shares of Fundo at the Company's option at Fundo's book value on the date the loans were granted or on the date of conversion at the Company's option. The conversion of the loans is restricted such that the Company cannot exceed ownership of 49.9% of Fundo through the conversion of this loan.

In September 2008, it became evident that there may not be sufficient capital within Fundo to secure its long-term viability. Accordingly, the investment in Fundo of $8,227, and all related notes receivable ($3,258) and interest income ($253) from Fundo were written down to nil, which is management's best estimate of their fair value. Included in the share of loss from associates is the write-down of the investment in the amount of $8,227. This valuation was validated in January 2009 when Fundo filed for bankruptcy.

Other Transactions

In 2008, Timminco purchased inventory from Fundo as a means of providing cash flow to its associate. This inventory purchase required that Fundo maintain a separate account and repay Timminco all amounts received from the sale of the inventory purchased. The Company guaranteed the repayment to Timminco. Fundo did not maintain a separate account and therefore defaulted on the agreement. It did not repay Timminco and therefore, AMG had to pay Timminco $1,585 as compensation for its guarantee of the inventory purchase.

On December 18, 2008, a wholly owned subsidiary of the Company invested $10,432 (including $118 of acquisition costs) to acquire 50% of Silmag DA. Silmag DA is a joint venture with Norsk Hydro that was established to develop a unique process to produce silica and magnesium at a low cost from olivine, a raw material abundant in Norway. Of the $10,314 invested, $3,127 will be used to purchase the technology and $7,187 will be used to fund a pilot plant to further develop the process technology. The technology was purchased from a joint venture called COD Tecnologies AS. The joint venture was 50% owned by Allied Resources Corporation, whose Chairman is also the Chief Executive Officer of the Company. A fairness opinion was obtained in order to ensure that the transaction was completed at arm's length.

Metallurg Holdings Inc. and the North American employees of AMG currently maintain offices in a building leased by Safeguard International. The Company pays an allocation of Safeguard's costs related to the office and the utilities. In addition to the lease and utility expenses, certain amounts related to travel and entertainment and the salaries of certain employees are cross-charged to Metallurg Holdings by Safeguard. During the years ended December 31, 2008 and 2007, Metallurg was billed $191 and $96 by Safeguard for its portion of costs related to the building. Amounts due to Safeguard at December 31, 2008 and 2007 were $316 and nil, respectively.

All outstanding balances with these related parties are priced on an arm's length basis. None of the balances are secured.

39. Subsequent events

On February 3, 2009, Timminco completed an equity offering of 7.04 million common shares at a price of C$3.55 per share for aggregate gross proceeds of $20,269.

Net proceeds of the financing were $19,621 and will be used for general corporate purposes, which includes repayment of funds drawn on Timminco's revolving credit facility.

The Company subscribed for a total of 3.94 million Timminco common shares pursuant to the offering, for aggregate proceeds of $11,351, representing 55.9% of the financing. As a result, the Company now owns 56.50 million common shares of Timminco, representing 50.7% of Timminco's total issued and outstanding share capital.

On February 18, 2009, Timminco announced that consistent with its strategy of positioning its magnesium business for profitability and strategic divestiture, it has entered into a non-binding letter of intent with Winca Tech Limited ("Winca"), a leading Chinese-based producer of magnesium products, to merge the principal components of Timminco's magnesium and specialty metals business, including its manufacturing facility in Nuevo Laredo, Mexico, with all of Winca's magnesium operations. Timminco expects to retain a minority equity interest in the combined business, which will be known as Applied Magnesium International ("AMI"). The head office of AMI is expected to be in Denver, Colorado. The proposed merger is subject to a number of conditions, including financing and the negotiation and execution of definitive agreements, and is expected to be completed in the second quarter of 2009.

Timminco will immediately start winding down production operations at its existing magnesium extrusion facility in Aurora, Colorado, and close this facility later this year. This facility currently employs 52 people. Some of the existing staff and management are expected to be transferred to AMI, along with certain assets and technology. The closure of the Aurora magnesium extrusion operations will result in severance payments and other cash closure costs of approximately $2.5 million, which will be incurred in 2009. Timminco expects to record charges in the first half of 2009 relating to these costs. The majority of the production assets of the Aurora facility were deemed to be impaired during 2006 and written down to fair market value at that time. To the extent that estimated proceeds of disposition, if any, are less than the carrying value of such assets, a charge will be taken in the first half of 2009. Timminco currently expects to recover a significant portion of its investment in working capital as the business is transitioned to AMI. Timminco expects to generate net cash proceeds from these announced plans during 2009.

On March 17, 2009, Timminco announced that it will temporarily curtail production of silicon metal starting in the second quarter 2009 in recognition of difficult market conditions. Timminco will produce solar grade silicon at levels that will bring production in line with customer orders and will defer further capacity expansion of its solar grade silicon facility. The decrease of Timminco's silicon metal production will result in a temporary workforce reduction.

AMG Advanced Metallurgical Group, N.V.
Parent Company Balance Sheet

As at December 31	Note	2008	2007
In thousands of US Dollars			
Assets			
Property, plant and equipment, net	2	616	–
Investments in subsidiaries	3	181,854	156,425
Loans due from subsidiaries	3	58,291	102,221
Investment in equity securities	4	1,000	–
Deposit	5	66	
Total non-current assets		241,827	258,646
Trade and related party receivables	8	14,241	13,056
Loans due from subsidiaries	3	127,351	104,501
Derivative financial instruments	13	5,644	–
Prepayments	6	371	175
Cash and cash equivalents	7	3,989	5,751
Total current assets		151,596	123,483
Total assets		393,423	382,129
Equity			
Issued capital	8	724	722
Share premium	8	379,297	392,304
Foreign currency translation reserve	8	(10,115)	150
Other reserves	8	7,900	(10,073)
Retained earnings (deficit)	8	(123,110)	(137,439)
Total equity attributable to shareholders of the Company		254,696	245,664
Liabilities			
Provision for negative participation	3	111,984	119,583
Long-term debt	10	17,000	–
Total non-current liabilities		128,984	119,583
Taxes and premium		134	–
Trade and other payables	11	5,031	1,928
Loans due to subsidiaries	9	–	11,488
Amounts due to subsidiaries	12	2,140	1,597
Derivative financial instruments	13	2,438	1,869
Current taxes payable		–	–
Total current liabilities		9,743	16,882
Total liabilities		138,727	136,465
Total equity and liabilities		393,423	382,129

The notes are an integral part of these financial statements.

AMG Advanced Metallurgical Group, N.V.
Parent Company Income statement

For the year ended December 31	2008	2007
In thousands of US Dollars		
Income from subsidiaries, after taxes	36,695	11,870
Other income and expenses	(22,242)	(166)
Net income	14,453	11,704

The notes are an integral part of these financial statements.

1. Summary of significant accounting policies

The parent company financial statements have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code, as generally accepted in the Netherlands. The accounting policies used in the financial statements are similar to the accounting policies used in the Consolidated Financial Statements, with the exception of financial fixed assets. Subsidiaries are valued at their net equity value, including allocated goodwill.

As of December 31, 2008, the balance sheet has been converted to USD from Euros using a balance sheet conversion rate of EUR:USD of 1.3919. (2007: 1.4603)

Subsidiaries included in the consolidated financial statements of the Company are as follows:

Name	Country of Incorporation	Percentage Held (Directly or Indirectly) by Company December 31, 2008	Percentage Held (Directly or Indirectly) by Company December 31, 2007
ABS Apparate-und Behälterbau Staßfurt GmbH	Germany	24.96	24.96
ALD Holcroft Vacuum Technologies Co.	United States	50	50
ALD Lindgren Inc.	Canada	100	100
ALD Industrie-und Montagepark Staaken GmbH	Germany	51	51
ALD Own & Operate GmbH	Germany	100	100
ALD Technologies Polska S.z.o.o	Poland	100	100
ALD Thermal Treatment, Inc.	United States	100	100
ALD Thermo Technologies Far East Co., Ltd.	Japan	100	100
ALD Tratamientos Termicos S.A.	Mexico	100	100
ALD Vacuum Technologies GmbH	Germany	100	100
ALD Vacuum Technologies Inc.	United States	100	100
ALD Vacuum Technologies Ltd.	United Kingdom	100	100
ALD Vakuumnyje Technologii OOO	Russia	100	100
Alpoco Developments Limited	United Kingdom	100	100
AMG Advanced Metallurgical Group Investment BV	Netherlands	100	–
AMG Coating Technologies GmbH	Germany	100	100
AMG DLC Coating GmbH	Germany	50	50
AMG Invest GmbH	Germany	100	–
Aurora Partnership	United States	50.34	50.54
Bécancour Silicon Inc.	Canada	50.34	50.54
Benda-Lutz-Alpoco Sp.z o.o.	Poland	51	51
Bogala Graphite Lanka Ltd.	Sri Lanka	79.52	–
Bostlan	Spain	25	25
Branwell Graphite Ltd.	United Kingdom	79.52	–
Castle Crushing Limited	United Kingdom	100	100
Silmag DA	Norway	50	–
Companhia Industrial Fluminense	Brazil	100	100
Korin Grundstücksgesellschaft GmbH & Co. Projekt 30 KG	Germany	94.9	94.9
Fundo Holdings AS*	Norway	50.34	50.54
Fundo Wheels A.S.	Norway	50.34	50.54
Edelgraphit GmbH	Germany	79.52	–
EsteR-Technologie GmbH	Germany	50.2	50.2
EsteR-Separation GmbH	Germany	30.1	30.1
FNE Forschungsinstitut für Nichteisen-Metalle Freiberg GmbH	Germany	100	100
Fremat GmbH & Co. KG	Germany	100	100
Zentrum für Material- und Umwelttechnik GmbH	Germany	100	100
Furnaces Nuclear Applications Grenoble S.A.	France	100	50
GfE Gesellschaft für Elektrometallurgie mbH	Germany	100	100
GfE Materials Technology	United States	100	100
GfE Metalle und Materialien GmbH	Germany	100	100
GfE Unterstützungskasse GmbH	Germany	100	100
G t Alloys	Germany	100	100
Graphit Kropfmühl AG	Germany	79.52	–
Graphite Týn spol. s r.o.	Czech Republic	79.52	–
Graphitwerk Kropfmühl Beteiligungs GmbH	Germany	79.52	–
H.M.I. Limited	United Kingdom	100	100
Industrial Adhesives Limited	Canada	50.34	50.54

Name	Country of Incorporation	Percentage Held (Directly or Indirectly) by Company December 31, 2008	Percentage Held (Directly or Indirectly) by Company December 31, 2007
London & Scandinavian Metallurgical Co Limited	United Kingdom	100	100
LSM (Jiaxing) Co	China	100	–
Metal Alloys (South Wales) Limited	United Kingdom	100	100
Metalloys Limited (dormant)	United Kingdom	100	100
Metallurg Delaware Holding Company	United States	100	100
Metallurg Europe Limited	United Kingdom	100	100
Metallurg European Holdings LLC	United States	100	–
Metallurg Holdings Corporation	United States	100	100
Metallurg Holdings Inc.	United States	100	100
Metallurg, Inc.	United States	100	100
Metallurg International Holdings LLC	United States	100	–
Metallurg Mexico	Mexico	100	100
Metallurg Servicios	Mexico	100	100
Metallurg Vanadium Corporation	United States	100	100
Mutual Sources Ltd.	China	79.52	–
M. & A. Powders Limited (dormant)	United Kingdom	100	100
NorWheels AS*	Norway	50.34	50.54
Pertus Zwoelfte GmbH	Germany	100	100
Produits Chimiques de Lucette S.A	France	100	100
Qingdao Kropfmühl l Graphite Co., Ltd.	China	79.52	–
Qingdao Kropfmühl Trading Co., Ltd.	China	79.52	–
RW silicium GmbH	Germany	79.52	–
S.A. Vickers Limited (dormant)	United Kingdom	100	100
Share Investment Pvt. Ltd.	Sri Lanka	79.52	–
Shieldalloy Metallurgical Corporation	United States	100	100
Société Industrielle et Chimique de l'Aisne	France	100	100
Sudamin France S.A.S	France	100	100
Sudamin Holdings S.A.	Belgium	100	100
Sudamin IT S.A.	France	100	–
Sudamin S.A.	Belgium	100	100
Technologie-und Gründer-zentrum GmbH	Germany	2.5	2.5
The Aluminium Powder Company Limited	United Kingdom	100	100
Timminco Adhesives Corporation	United States	50.34	50.54
Timminco Colorado Corporation	United States	50.34	50.54
Timminco Corporation	United States	50.34	50.54
Timminco de Mexico S.A. de CV	Mexico	50.34	50.54
Timminco Holdings Corporation	United States	50.34	50.54
Timminco Limited	Canada	50.34	50.54
Timminco Properties Inc.	United States	50.34	50.54
Timminco Pty Limited	Australia	50.34	50.54
Timminco S.A.	Switzerland	50.34	50.54
Timminco Technologies Corporation	United States	50.34	50.54
VACUHEAT GmbH	Germany	100	100
VACUHEAT Verwaltungs GmbH	Germany	100	100
Zimbabwe German Graphite Mines Pvt. Ltd.	Zimbabwe	79.52	–

* Fundo Holdings AS and Nor-Wheels AS are 45.3% owned by Timminco, for which the Company owns 50.34%. Therefore, the Company indirectly holds 22.8% of these companies. Bogala Graphite is owned by Graphit Kropfmühl, for which the Company owns 79.52%. Therefore, the Company indirectly holds 70.2% of this company.

2. Property, plant and equipment

	Leasehold Improvements	Machinery and Equipment	Total
Cost			
Balance at January 1, 2008	–	–	–
Additions	599	91	690
Balance at December 31, 2008	599	91	690
Depreciation			
Balance at January 1, 2008	–	–	–
Depreciation	(54)	(20)	(74)
Balance at December 31, 2008	(54)	(20)	(74)
Carrying amounts			
At January 1, 2008	–	–	–
At December 31, 2008	545	71	616

3. Financial Fixed Assets

Investments in Subsidiaries

The movement in subsidiaries was as follows:

	Investment in subsidiaries	Provision for negative participation	Total
Balance at January 1, 2007	–	–	–
Contribution in kind from shareholder	(38,848)	–	(38,848)
Dilution due to issuance of shares in subsidiary	14,185	–	14,185
Capital contribution to subsidiary	198,935	–	198,935
Return of capital from subsidiary	(197,328)	–	(197,328)
Purchase of shares	42,560	–	42,560
Subsidiary convertible debt	1,329	–	1,329
Accretion on convertible debt	530	–	530
Valuation of convertible debt	(902)	–	(902)
Subsidiary options	2,199	–	2,199
Income for the period	11,870	–	11,870
Deferred losses on derivatives	(264)	–	(264)
Other	(53)	–	(53)
Currency translation adjustment	2,629	–	2,629
Balance at December 31, 2007	36,842	–	36,842
Reclassification for provision for negative participation:			
Provision for negative participation	119,583	(119,583)	–
Balance at December 31, 2007	156,425	(119,583)	36,842
Balance at January 1, 2008	156,425	(119,583)	36,842
Investment in new companies	11,316	–	11,316
Adjustment to subsidiary convertible debt	(84)	–	(84)
Subsidiary options	10,073	–	10,073
Income for the period	36,695	–	36,695
Deferred losses on derivatives	(12,958)	–	(12,958)
Other	(230)	–	(230)
Currency translation adjustment	(11,784)	–	(11,784)
Balance at December 31, 2008	189,453	–	69,870
Reclassification for provision for negative participation:			
Provision for negative participation	(7,599)	7,599	
Balance at December 31, 2008	181,854	(111,984)	69,870

Loans due from subsidiaries

	Non-current loans due from subsidiaries	Current loans due from subsidiaries	Total
Balance at January 1, 2007	–	–	–
Loans	98,136	103,610	201,746
Currency translation adjustment	4,085	891	4,976
Balance at December 31, 2007	102,221	104,501	206,722
Balance at January 1, 2008	102,221	104,501	206,722
Loans	85,272	8,773	94,045
Repayments	(76,362)	(19,500)	(95,862)
Offset against loans due to subsidiaries	(12,126)	–	(12,126)
Reclassification from non-current to current	(34,191)	34,191	–
Currency translation adjustment	(6,523)	(614)	(7,137)
Balance at December 31, 2008	58,291	127,351	185,642

The loan offset was formally documented and recorded between the Company and one of its German subsidiaries as of July 1, 2008. Amounts are loaned to subsidiaries primarily to finance operations and working capital. The non-current loan is due from a German subsidiary. The loan has a term of ten years and a floating interest rate based on EURIBOR. At year-end December 31, 2008, this rate was 7.23%. Current loans are due from several subsidiaries in Europe and the United States. Loans in the amount of $126,151 are due in 2009 and loans with a balance of $1,200 are due upon request. All current loans have an interest rate in the range of 7.00 – 7.23% at December 31, 2008.

4. Investment in equity instruments

The Company has a strategic investment in a growth-based company in Iceland. This equity investment cannot be reliably measured at fair value and is therefore accounted for using a cost basis. As of December 31, 2008, this investment amounted to $1,000.

5. Deposit

The deposit account includes a security deposit for the Amsterdam office location of the Company.

6. Prepayments

At December 31, 2008 and 2007, prepayments primarily represent prepaid insurance and prepaid rent for the Company.

7. Cash and cash equivalents

Bank balances earn interest at floating rates based on daily bank deposit rates.

8. Capital and reserves

	Shareholders Equity					
	Issued capital	Share premium	Foreign currency translation reserve	Other reserves	Retained deficit	Total
Balance at January 1, 2007	59	–	–	–	–	59
Foreign currency translation	–	–	1,697	–	–	1,697
Loss on cash flow hedges, net of tax	–	–	–	(264)	–	(264)
Net income recognized directly in equity	–	–	1,697	(264)	–	1,433
Profit for the year	–	–	–	–	11,704	11,704
Total recognized income and expense for the year	–	–	1,697	(264)	11,704	13,137
Issuance of shares for contribution in kind	406	103,410	(1,547)	(13,766)	(148,840)	(60,337)
Issuance of shares for initial public offering	257	286,830	–	–	–	287,087
Costs of initial public offering		(8,526)	–	–	–	(8,526)
Issuance of shares to directors	–	140	–	–	–	140
Exercise of convertible debt at subsidiary	–	1,329	–	–	–	1,329
Accretion of convertible debt	–	528	–	–	–	528
Valuation of convertible debt	–	(902)	–	–	–	(902)
Dilution due to issuance of shares in subsidiary	–	9,245	–	–	–	9,245
Equity-settled share-based payment expense	–	–	–	3,957	–	3,957
Other	–	250	–	–	(303)	(53)
Balance at December 31, 2007	722	392,304	150	(10,073)	(137,439)	245,664
Balance at January 1, 2008	722	392,304	150	(10,073)	(137,439)	245,664
Foreign currency translation	–	–	(10,265)	(249)	–	(10,514)
Loss on cash flow hedges, net of tax	–	–	–	(12,958)	–	(12,958)
Net income recognized directly in equity	–	–	(10,265)	(13,207)	–	(23,472)
Profit for the year	–	–	–	–	14,453	14,453
Total recognized income and expense for the year	–	–	(10,265)	(13,207)	14,453	(9,019)
Issuance of shares from exercise of share-based payments	2	3,006	–	(1,151)	–	1,857
Ownership change	–	(15,823)	–	14,300	–	(1,523)
Valuation of convertible debt	–	(84)	–	–	–	(84)
Equity-settled share-based payment expense at subsidiary	–	–	–	1,311	–	1,311
Equity-settled share-based payment expense	–	–	–	16,720	–	16,720
Other	–	(106)	–	–	(124)	(230)
Balance at December 31, 2008	724	379,297	(10,115)	7,900	(123,110)	254,696

At December 31, 2008, the Company's authorized share capital was comprised of 100,000,000 ordinary shares (2007: 100,000,000) with a nominal share value of €0.02 (2007: €0.02). At December 31, 2008, the issued and outstanding share capital was comprised of 26,855,586 ordinary shares (2006: 26,803,086), with a nominal value of €0.02 (2006: €0.02) which were fully paid.

In anticipation of the Company's Annual General Meeting's adoption of the annual accounts, it is proposed that the net income for 2008, $14,453 (2007: $11,704), be allocated to retained earnings. All other reserves are not distributable. There are no expected tax consequences on retained earnings as no distributions are anticipated.

MDHC Contribution

On March 29, 2007 the Company issued a total of 549,746 Shares in consideration for the contribution in kind (*inbreng anders dan in geld*) to the Company of shares held by each subscriber in the capital of MDHC. The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as a voluntary share premium (*niet bedongen agio*). In addition, on April 2, 2007 the Company issued 254 Shares to The Lanigan Trust dated March 8, 2000 in consideration for cash (and at the same time The Lanigan Trust contributed its shares in the capital of MDHC as voluntary share premium).

ALD Contribution

On March 29, 2007 the Company issued 2,129,486 Shares to ALD International in partial consideration for the contribution in kind to the Company of all of the outstanding shares in the capital of ALD (the remainder of the consideration being satisfied by the Company's assumption of a debt payable to PFW Aerospace of approximately EUR 15,900). The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as voluntary share premium payment.

Timminco Contributions

On March 29, 2007 the Company issued 173,893 Shares to BLP in consideration for the contribution in kind to the Company of 40,909,093 shares in the capital of Timminco. The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as voluntary share premium payment.

On June 26, 2007, the Company issued 189,840 Shares to ALD International in consideration for the contribution in kind to the Company of the right to have 5,601,000 Timminco shares issued to the Company. The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as voluntary share premium payment.

Share-based payments

During the year ended December 31, 2008, 52,500 share-based payments were exercised resulting in 52,500 shares being issued. No additional shares were issued during the year ended December 31, 2008.

A rollforward of the total shares outstanding is noted below:

Balance at January 1, 2007		450
Effect of share split	March 29	449,550
MDHC contribution	March 29	550,000
ALD contribution	March 29	2,129,486
Timminco contribution 1	March 29	173,893
Timminco contribution 2	April 2	189,840
Effect of share splits	June 26	13,972,876
Initial public offering	July 11	9,333,409
Issuance of shares to directors	July 11	3,582
Balance at December 31, 2007		26,803,086
Balance at January 1, 2008		26,803,086
Exercise of share-based payments		52,500
Balance at December 31, 2008		26,855,586

9. Loans due to subsidiaries

Loans due to subsidiaries are short term loans due to the Company's German subsidiary. There are two loans with denominations of €7 million and €0.7 million. The €7 million loan bears interest at 7% while the €0.7 million loan bears interest at 11%. The balance due at December 31, 2008 was nil (2007: $11,488). These loans were offset against loans due from subsidiaries through an agreement of offset on July 1, 2008. See note 3.

10. Long term debt

The Company and its subsidiaries are parties to a long term debt agreement that is comprised of two facilities, a $100,000 term loan facility (the "Term Loan") and a $175,000 multicurrency revolving credit facility agreement (the "Revolving Credit Facility"). The Term Loan and the Revolving Credit Facility mature on August 30, 2012 (together the "Credit Facility"). The Credit Facility is secured by substantially all of the assets of the material subsidiaries, excluding Timminco and GK, and a 100% pledge on all of the Timminco and GK shares which are owned by the Company.

During the year ended December 31, 2008, the Company borrowed under the Credit facility in order to acquire the shares of Graphit-Kropfmühl. The remaining balance of the borrowings is $17,000.

Interest on the borrowings is based on current LIBOR plus a 1.25 percent margin.

The Credit Facility is subject to several affirmative and negative covenants including, but not limited to, the following:

- EBITDA to Net Finance Charges: Not to be less than 3.00: 1
- Net Debt to EBITDA: Not to exceed 3.75: 1
- Senior Net Debt to EBITDA: Not to exceed 2:00:1

EBITDA, Net Finance Charges, Net Debt and Senior Net Debt are defined in the Credit Facility agreement.

Mandatory prepayment of the Credit Facility is required upon the occurrence of (i) a change of control or (ii) the sale of all or substantially all of the business and/or assets of the Company whether in a single transaction or a series of related transactions.

11. Trade and other payables

Trade and other payables represent amounts owed to related parties as well as amounts owed to professional service firms. See note 15.

12. Amounts due to subsidiaries

Certain payroll expenses, travel and entertainment and other expenses are paid directly by a subsidiary and billed to the Company at cost. As of December 31, 2008 and 2007, these amounted to $2,140 and $1,597, respectively.

13. Derivative financial instruments

Foreign currency forward contracts

At any point in time, the Company uses foreign exchange forward contracts to hedge intergroup loans that will be repaid in different functional currencies. These contracts are negotiated to match the expected terms of the commitments and generally mature within one year. When necessary, these contracts are rolled over at maturity. The Company's foreign exchange forward contracts, although part of the risk management strategy are treated as economic hedges. The fair value of these contracts are recorded in the balance sheet. As of December 31, 2008, the Company had a derivative financial instrument asset of $5,644 and a derivative financial liability of $2,438. As of December 31, 2007, the Company only had a derivative financial liability in the amount of $1,869.

14. Commitments and contingencies

The Company has entered into a lease for office space in Amsterdam. The lease term is through March 31, 2013.

Future minimum lease payments under this lease as at December 31 are payable as follows:

	2008	2007
Less than one year	195	–
Between one and five years	634	–
More than five years	–	–
	829	–

15. Related parties

Approximately 27% of the Company is owned by a group of investors led by and including Safeguard International Fund, L.P. ("Safeguard International"), an international private equity fund that invests primarily in equity securities of companies in process industries. Two members of the management board of the Company are Managing Directors of Safeguard International.

Other Transactions

During 2007, the Company incurred legal and accounting fees in association with the initial public offering. Safeguard International offered a portion of their own shares for sale in the initial public offering and therefore a proportionate amount of the costs approximating $4,526 were billed to Safeguard International. Of this amount, $142 and $228 remains outstanding at December 31, 2008 and 2007, respectively.

16. Employees

At December 31, 2008, the Company had 13 employees (2007: 10).

17. Audit fees

Ernst and Young Accountants LLP has served as the Company's independent auditors for each of the two years in the periods ended December 31, 2008 and December 31, 2007. The following table sets forth the total fees in accordance with Part 9 of Book 2, article 382a of the Netherlands Civil Code.

	2008	2007
Audit fees	486	448
Audit related fees	112	1,223
Other	424	375
	1,022	2,046

Audit related fees mainly comprise audit services regarding the Company's prospectus for its initial public offering during July 2007.

18. Other information

Article 25 of the Articles of Association

25. Adoption of Annual Accounts

25.1 The annual accounts shall be adopted by the general meeting.

25.2 Without prejudice to the provisions of article 23.2, the company shall ensure that the annual accounts, the annual report and the additional information that should be made generally available together with the annual accounts pursuant to or in accordance with the law, are made generally available from the day of the convocation of the general meeting at which they are to be dealt with.

25.3 The annual accounts cannot be adopted if the general meeting has not been able to take notice of the auditor's report, unless a valid ground for the absence of the auditor's report is given under the other additional information referred to in article 25.2

Amsterdam, March 30, 2009

Other Information

Appropriation of Net Profit

Pursuant to section 26 of the Articles of Association, the Management Board shall, subject to the approval of the Supervisory Board, be authorized to reserve the profits in whole or in part. The General Meeting is authorized to distribute and/or reserve any remaining part of the profits.

AMG's dividend policy is to retain future earnings to finance the growth and development of its business. As a result, the Management Board, with the approval of the Supervisory Board, has resolved that no dividend will be paid in respect of 2008 and that the 2008 net profits will be added to the retained earnings.

Auditors' Report

To: the Shareholders meeting and Supervisory Board of AMG Advanced Metallurgical Group N.V.

Report on the financial statements

We have audited the accompanying financial statements 2008 of AMG Advanced Metallurgical Group N.V., Amsterdam, the Netherlands. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2008, the consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes. The parent company financial statements comprise the parent company balance sheet as at December 31, 2008, the parent company income statement for the year then ended and the notes.

Management's responsibility

Company's management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the management board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AMG Advanced Metallurgical Group N.V. as at December 31, 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the parent company financial statements give a true and fair view of the financial position of AMG Advanced Metallurgical Group N.V. as at December 31, 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Den Bosch, the Netherlands, March 30, 2009
Ernst & Young Accountants LLP

/s/ A.J.M. van der Sanden

Shareholder Information

Supervisory Board

Pedro Pablo Kuczynski, Chairman
Remuneration Committee

Wesley Clark
Selection and Appointment Committee

Jack Messman
Audit Committee Remuneration Committee (Chairman)

Norbert Quinkert
Selection and Appointment Committee

Guy de Selliers
Audit Committee (Chairman)

Management Board

Heinz Schimmelbusch
Chairman and Chief Executive Officer

Arthur Spector
Deputy Chairman

William Levy
Chief Financial Officer

Eric Jackson
President, Advanced Materials Division

Reinhard Walter
President, Engineering Systems Division

Copies of the Annual Report and further information are obtainable from the Investor Relations Department of the Company

ir@amg-nv.com

or by accessing the Company's website

www.amg-nv.com

Listing Agent:

ING Bank N.V.

Paying Agent

ING Bank N.V.

Euronext: AMG

Trade Register

Trade Register

AMG Advanced Metallurgical Group N.V. is registered with the trade register in the Netherlands under no. 34261128

AMG Advanced Metallurgical Group N.V.

Head Office – Netherlands
WTC Amsterdam
Toren C
Strawinskylaan 1343
1077 XX Amsterdam
Netherlands
T: +31 20 7147 140

United States Office
Building 200
435 Devon Park Drive
Wayne, PA 19087
United States
T: +1 610 293 2501

www.amg-nv.com