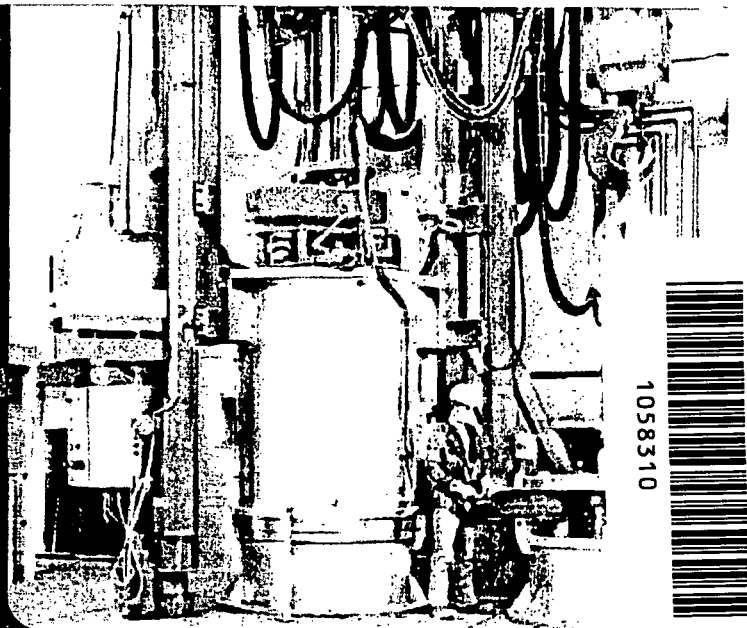


AMG Advanced Metallurgical Group N.V.

Annual Report & Accounts
2007

AMG

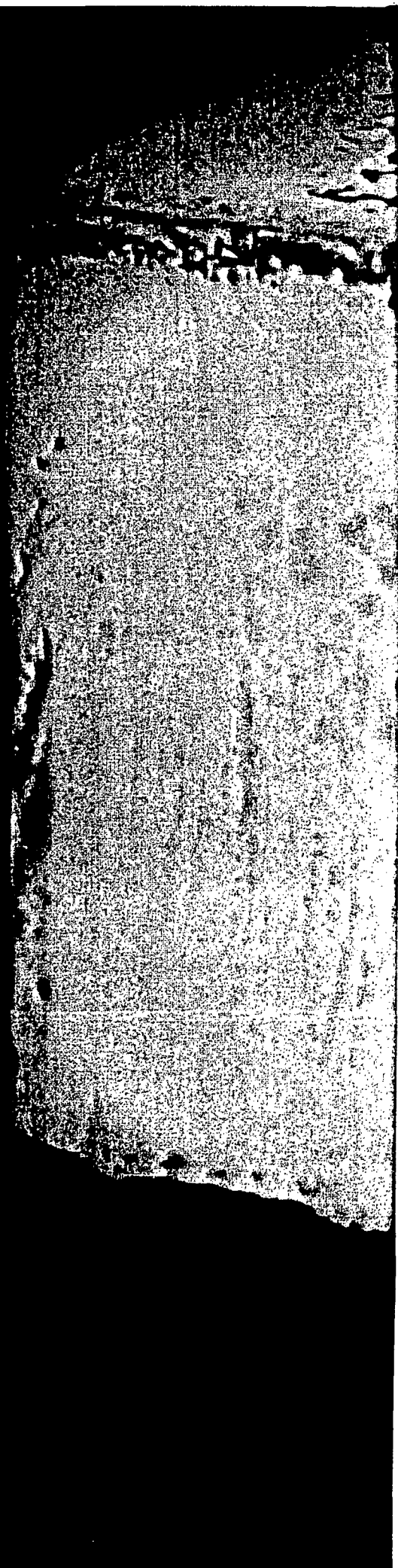
Vastgesteld door de algemene vergadering
van aandeelhouders op 13 mei 2008



AMG Advanced Metallurgical Group N.V. is a global leader in the production of specialty metals and metallurgical vacuum furnace systems. AMG serves growing industries worldwide with its unique combination of metallurgical engineering expertise and production know-how.

AMG is a market leader in many of its products, serving rapidly growing markets, including solar energy and aerospace. AMG's leadership positions are enhanced through its high product quality and technical service.

AMG is led by a highly experienced Management Board and a highly talented executive team with extensive international operating experience in the metals, chemical and financial industries. AMG's global presence is highlighted by its major operations in 12 countries on five continents.



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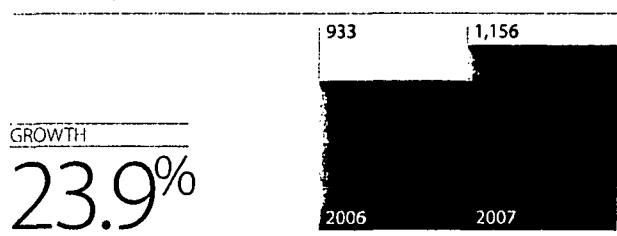
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AMG at a Glance

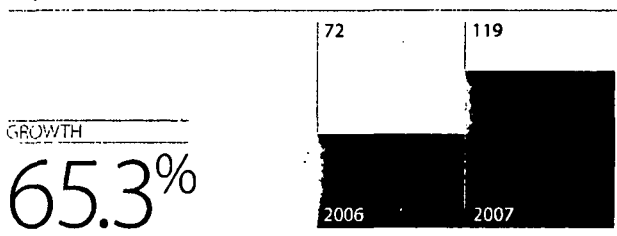
Financial Highlights 2007

AMG's financial results for 2007 exhibit significant growth and margin improvement compared to 2006. AMG's success is a result of continuing operational initiatives and new product and systems innovations. Key financial highlights are summarized below.

Revenues \$million



Adjusted EBITDA \$million



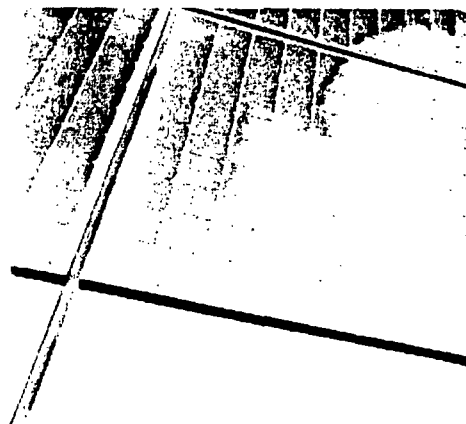
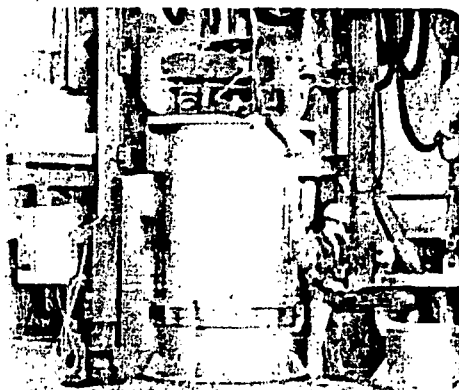
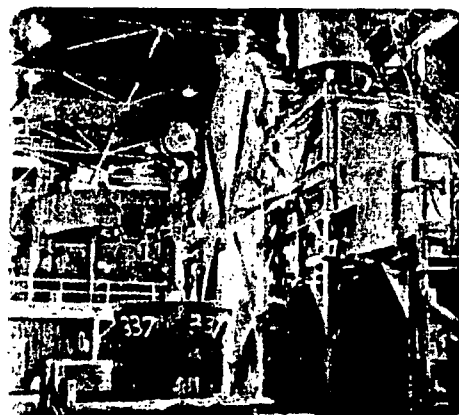
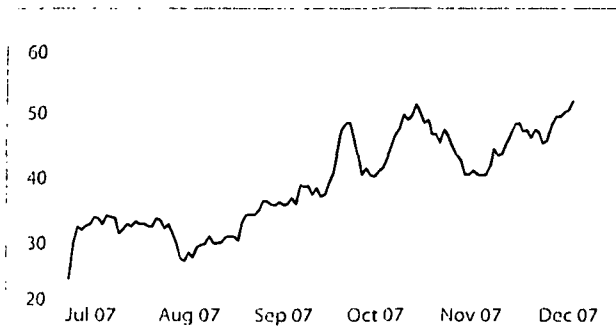
Key Balance Sheet Data \$million

	2006	2007
Total assets	571	897
Shareholders' equity	(24)	312

Key Operating Ratios

	2006	2007
Adjusted EBITDA as a % of revenues	7.7%	10.3%
Return on shareholders' equity	n/m	27.5%
Return on capital employed	2.1%	20.4%

AMG Stock Price Chart



Guided by a multi-faceted growth strategy, AMG was formed in 2006 through the combination of well-established industry leading companies previously operated under common ownership. In July 2007 AMG completed an initial public offering of primary and secondary shares raising \$465 million. AMG's shares are listed on Euronext Amsterdam.

AMG has two operating divisions, Advanced Materials and Engineering Systems, and owns a majority interest in publicly-listed Timminco Limited.

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.

These specialized products perform critical functions in applications for the aerospace, energy, electronics, optics, infrastructure and chemical industries.

The Division's key products include ferrovanadium, ferronickel-molybdenum, specialty alloys for titanium and superalloys, coating materials, aluminum master alloys and compacted products, chromium metal, tantalum and niobium oxides, vanadium chemicals and antimony trioxide.

Operating Highlights

- Completed the acquisition of FNE in Germany adding new coatings technologies
- Tantalum mine in Brazil in process of doubling capacity
- Brazilian operations began to double capacity of hydroelectric power plant to supply 100% of requirements
- Furnace rebuilt at Cambridge, Ohio, effectively increasing capacity by 15%

Engineering Systems

The Engineering Systems Division designs and produces advanced vacuum furnace systems and operates vacuum heat treatment facilities. The Division is a global leader in supplying the most technologically-advanced vacuum furnace systems to customers in the aerospace, energy (including solar-photovoltaic and nuclear), transportation, electronics, superalloys, ceramics, and specialty steel industries.

Key furnace types include remelting, solar silicon melting and crystallization, vacuum induction melting, vacuum heat treatment and high-pressure gas quenching, vacuum precision casting, turbine blade coating and sintering.

Operating Highlights

- Record backlog of \$252 million at year end, primarily of solar and titanium furnaces
- New solar furnace production facility of 45,000 m² in Berlin
- New Own and Operate heat treatment facility built in Mexico
- New JV to produce nuclear fuel sintering furnaces in France

Timminco

Timminco Limited is a majority controlled, publicly-listed subsidiary of AMG. Timminco is a leader in the production of upgraded metallurgical silicon (UMSi) for the rapidly growing solar photovoltaic energy industry. Timminco recently completed construction of a new plant for the production of this material and has announced further capacity expansion in a new facility.

Timminco also produces silicon metal and magnesium products for use in a broad range of industrial applications.

Timminco's key products include solar silicon (UMSi), metallurgical silicon metal, specialty ferrosilicon, as well as various magnesium products including extrusions and alloys.

Operating Highlights

- New facility for production of solar silicon using a proprietary process commenced production in December
- Two equity offerings raised over \$108 million

Chief Executive Officer's Statement

Dr. Heinz C. Schimmelbusch
Chief Executive Officer

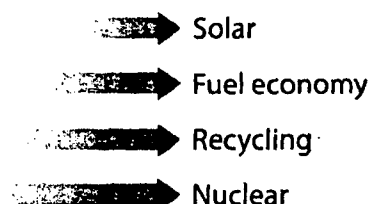


AMG Advanced Metallurgical Group N.V. (Euronext: AMG) is a new company and this is the first annual report since our initial public offering. We completed our initial public offering in July 2007 with an offering price of €24 per share and a market value of shares outstanding of €643 million. On December 31, 2007 our share price was €51.34 and our market value of shares outstanding was €1,376 million, a 114% increase for the six month period. At that date the market value of shares outstanding of Timminco Limited (TSX: TIM.TO) was €1,541 million.

Although this increase is substantial our management team recognizes a continuing obligation to create value for the shareholders of AMG. We will work to improve our product and services portfolio and drive higher margins through innovation; optimize our position on various value chains of the niche markets in which we operate; and seek to lower our raw material and conversion costs through advanced metallurgical technology. Presently, however, our first and highest priority is to substantially expand our solar businesses.



Major Growth Trends for AMG



Our Business Model

In many ways, furnaces are the heart of metallurgy and proprietary furnace technology and operating competence is our core asset. New innovative technology is created, one, by developing new furnace designs; and, two, by the learning process of furnace operators. Therefore we have organized ourselves in two business units: The Advanced Materials Division (AMD) which operates furnaces and produces specialty metals and materials; and the Engineering Systems Division (ESD) which designs and builds furnaces. Both divisions operate on a global scale. The intensive dialogue between operators and engineers is a third source of learning and innovation. This dialogue is the center of our business model. As a result we are able to develop several markets that utilize services of both divisions.

Timminco Limited is our majority controlled publicly traded silicon technology and specialty metals company. Timminco is an excellent case to demonstrate two important principles at AMG: first, turning a commodity producer into a high margin and fast growing business and, two, through a dialogue between Timminco and the Engineering Systems Division, expanding the business of each, as customers of Timminco's upgraded metallurgical silicon (UMSi) purchase the Engineering Systems Division's furnaces and vice versa.

The basic ideas which led to the formation of AMG have been, one, identify major growth trends which demand advanced metallurgical solutions; two, create technology-based innovations which establish a strong linkage between AMG's growth and those trends; and, three, stay ahead of the learning curve by managing a team effort between operations and design engineers. Our innovations are rooted in advanced metallurgy.

Four Major Growth Trends

In building AMG we identified four major growth trends and have targeted relevant material-science-based solutions and innovations. The first major trend is the growth of the solar industry where we are positioned as a low cost producer of UMSi and as a provider of vacuum furnace technology for solar grade silicon ingots and for alternative UMSi solutions. The second major trend we are targeting is the need to increase the fuel efficiency of aerospace and automotive engines. Here we are providing

furnace engineering solutions and developing and producing high performance alloys.

The third major trend is the need to increase recycling as primary raw materials become ever more scarce and as the use of secondary materials reduces emissions compared to primary production. And the fourth trend is the re-emergence of nuclear energy as a necessary driver to contain climate change. Here we have been developing several patented processes securing our position for medium term growth of engineering services for the nuclear fuel industry. Of course, these growth trends are directly related to one 'umbrella' trend, namely the need to reduce greenhouse gas emissions as recognized by the overwhelming majority of scientists.

In a widely publicized paper, Princeton University professors Stephen Pacala and Robert Socolow discuss how to stabilize CO₂ emissions at around 7 billion tons annually in order to stay at pre-catastrophic CO₂ concentration levels in the atmosphere. The professors identify 'wedges' with the potential to each save more than 1 billion tons of CO₂ emissions annually. Solar energy, fuel economy in transportation, and nuclear energy are identified as wedges by the professors. We believe that on a global scale, recycling, namely the extraction of valuable metals from industrial waste streams, also qualifies as a 'wedge'. More specifically, the extraction of valuable metals from industrial waste streams reduces demand for raw materials that otherwise would be serviced by primary production leaving a much higher CO₂ footprint.

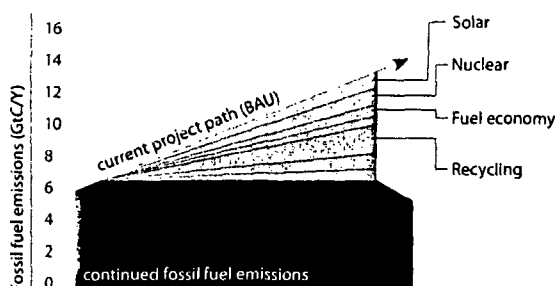
Technology Portfolio

Our fastest growing area is solar energy. However to restrict AMG to solar energy would under-leverage our technology base. As described, our leadership in furnace technology puts us at the center of a number of major growth trends on which we want to capitalize. Solar is the largest but just one of several components of our growth strategy.

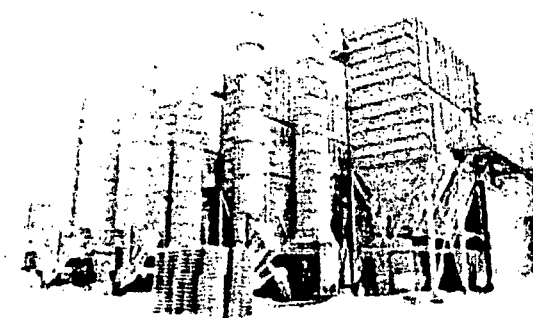
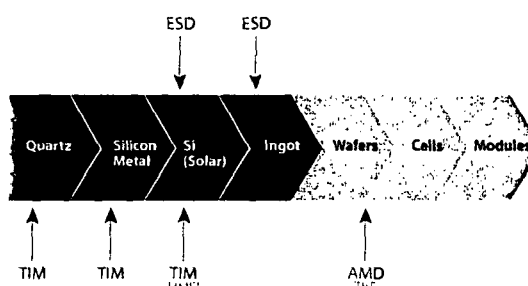
We are managing a technology portfolio, the center of which is furnace technology. Our engineers in both divisions are learning from each other across product lines and divisional borders. Many customers are served both with furnace and with specialty alloy solutions. We want to intensify this interaction.

Chief Executive Officer's Statement

CO₂ Stabilization Wedges as They Relate to AMG



Solar Value Chain



Solar

Of course, solar is presently our fastest growing business. Our first priority is to expand the UMSi production of Bécancour from the present rated annual capacity of 3,600 tons to 14,400 tons, and to build our base of customers with long-term fixed price contracts.

In 2007, AMG grossed in excess of \$100 million in sales of solar furnace technology and engineering services, a more than five-fold increase over 2006. Also in 2007, Timminco, in record time, built a new plant for the production of solar grade silicon metal. We started production in December 2007 on the first of three production lines, each line having 1,200 tons of UMSi capacity. The second line was operational in February 2008 and the third should be in production by the end of the first quarter 2008. The sales revenues of UMSi at the rated annual capacity of 3,600 tons will significantly exceed the historical sales revenues of our silicon metal production of 50,000 tons per annum. This is one way to illustrate the value of our diversification into solar grade silicon. Given our contractual sales commitments and our negotiations for additional off-take contracts we have decided to increase our annual capacity to 14,400 tons by 2009.

In the second half of 2007, while Timminco was focused on building the new UMSi plant in Bécancour, AMG's Engineering Systems Division acquired and restructured a plant in Berlin for the production of solar furnaces in order to increase capacity and reduce delivery lead times caused by fully booked suppliers. This is a good example

of the value chain repositioning that I referred to earlier. This activity was previously outsourced but was taken in-house to avoid bottlenecks and capacity constraints.

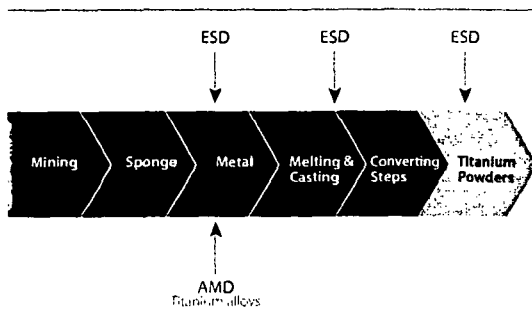
We are also evaluating opportunities for an overseas expansion (as seen from Bécancour) of our UMSi operations. In addition, we are working to further improve the quality of our solar grade material to reduce the necessity of blending with polysilicon, with the target of eliminating the need for blending. A concept to move downstream with an Own and Operate model for solar furnaces is also being evaluated. In thin film solar technology our Advanced Materials Division has started to produce copper indium gallium and zinc oxide physical vapor deposition materials and rotatable targets. We see great opportunity in this area with high growth rates, albeit from a small base.

Titanium

The second major growth trend we serve is based on the necessity to increase fuel economy, by reducing fuel consumption per mile, in transportation. In aerospace that has led to explosive growth in the use of titanium alloys, as aircraft and manufacturers are in a fierce competition to produce lighter aircraft and more efficient engines to reduce CO₂ emissions. In the automotive industry the race is on to reduce CO₂ emissions in terms of grams/mile or grams/km. AMG serves the titanium industry through our Engineering Systems Division supplying titanium furnaces for melting and casting as well as the production of titanium powders. The center of this engineering activity presently is in China as that country is positioned to become the world's largest titanium producer by expanding its titanium sponge and metal capacity from around 20,000 tpa to over 120,000 tpa within a 3-5 year period. In titanium furnaces AMG has a market share of over 50% in this fast growing region.

Our Advanced Materials Division also serves this market as a world leader in the production of specialty alloys for titanium. Our products include high performance structural materials such as gamma titanium aluminides and other specialty titanium alloys. Gamma titanium aluminide is a light weight inter-metallic material for

Titanium Value Chain



high temperature applications such as turbine and compressor components for a new generation of engines and stationary gas turbines.

So, while we are not a producer of titanium sponge or metal, we are supplying vacuum furnaces and we are a producer of special alloys for titanium metal producers. The various titanium related activities in 2007 created a sales volume of \$235 million.

Recycling

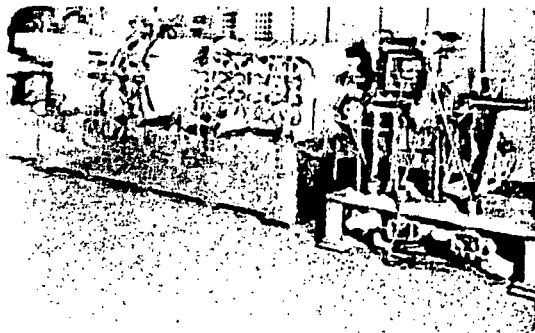
In our portfolio of specialty metals, ultimately, success is dependent on strategic raw material sourcing. In tantalum our answer to sourcing is a high grade and low cost mine in Brazil. In silicon, we control our own quartz mine in Canada as raw material for silicon metal production. Although we are converters, in aluminum master alloys, chrome metal, and ferrotitanium intelligent sourcing remains critical. AMG's most important raw material sourcing is secondary materials for recycling, mostly in the form of industrial residues. For aluminum master alloys we are increasingly relying on secondary aluminum as an additional feedstock. For ferrotitanium we rely mostly on scrap. For ferrovanadium, our most important specialty alloy, and for ferronickel-molybdenum, we have repositioned our plant in Cambridge, Ohio, to process 100% secondary raw materials. This operation is based on a proprietary furnace technology.



The Alberta oil sands contain relatively high concentrations of vanadium. The upgraders and oil refineries use process catalysts that contain molybdenum and nickel. 'Spent catalysts', our most important feedstock, is therefore a raw material for three metals which we extract and turn into commercial products, ferrovanadium and ferronickel-molybdenum. Presently, in line with the growth of the oil sands operation in Alberta, we are engaged in a significant three stage expansion program of our recycling capacity in Ohio. In 2007 revenues from this activity were \$91 million and we have a very positive outlook for 2008.

Engineering for Nuclear Fuels

In our Engineering Systems Division we are involved in the production of nuclear fuels. We supply engineering, manufacturing, installation and commissioning for sintering furnace lines including external transport systems, glove boxes and auxiliary supply systems for process gases and cooling water. This business relates to mixed oxide fuel (MOX), and fuel pellets made of UO_2 and PuO_2 . We also own



a proprietary process technology for the production of fuel spheres for the so called Pebble Bed Reactor as well as technology to produce nuclear grade graphite for HTR and Graphite Moderated Reactors. Given increasing demand in these activities and a worldwide resurgence of nuclear power we believe that our nuclear technology base will lead to significant sales in the coming years. We are in the process of increasing our resources dedicated to this sector.

Chief Executive Officer's Statement

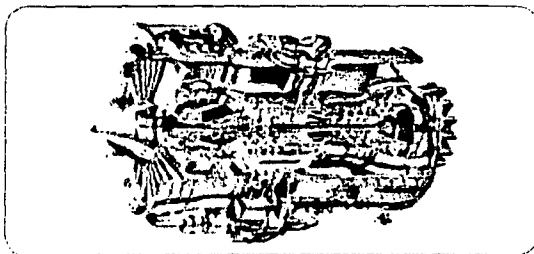
The Innovation Process

In AMG, innovations are not an option but a necessity to drive growth and retain leadership across our products and engineering service offerings. In the past five years we have focused on, among others:

- New technology for extracting specialty metals from Alberta oil sands waste streams
- UMSi
- A new furnace product line for solar grade silicon ingots
- A new furnace product line for titanium metal;
- Regionally, a leadership position in China for solar and titanium
- A radically new heat treatment technology for automotive engine parts offered also in an Own and Operate model under long-term contracts

When we add it up, in 2008, more than 50% of our sales are expected to come from products or processes which did not exist five years ago. Most importantly, we want to accelerate or at least stabilize this innovation intensity, so that we can say the same thing in 2013. Some of the areas we are working on include:

- Capacity expansion for recycling operations for Alberta oil sands
- UMSi capacity expansion
- Further UMSi quality enhancement
- Productivity improvement of our solar silicon ingot furnaces
- New gamma titanium aluminide alloys for turbine engines (as below) and other aircraft applications



- A new family of plasma coating materials and coating services;
- Significant expansion of our nuclear engineering activities
- Development of lithium vanadate for lithium polymer batteries for the electric car industry;
- Development of new target materials for solar applications;

The market for Diamond Like Coating materials (DLC) shows a significant and sustainable growth rate. To improve our position in the DLC area we have formed AMG Coating Technologies GmbH to have a platform for concentrated development efforts. Our targets include automotive parts in fuel injection systems and modern diesel engines.

Risk Management

We have a very special approach to risk management.

We differentiate between two categories of risk. The first category includes calculated risks which we deliberately take on to drive innovation and growth. Innovations are by definition high risk as one is sailing into partially unknown territories. Those risks, such as technical risks of a new process or risks associated with new management teams, have to be actively managed and alternative plans have to be ready in the case of deviations from initially charted routes. This risk category is the very essence of entrepreneurship.

The second category of risk are those unexpected events that can cause operational disturbances and resultant financial loss or the missing of financial targets both for traditional and for innovative assets. We approach this category of risk through two channels. In the first channel the risks are catalogued and monitored comprehensively, evaluated, re-evaluated, responded to by counter measures of various kinds and documented. This formalized process is organized and managed by the head of risk management who reports directly to the CEO.

We are, however, aware and risk management needs to recognize, that certain risks of this category escape even the most thorough screening. Competitors hide their plans to creatively destruct; suppliers try to maneuver secretly into more consolidated positions; acts of governments are difficult to predict; country risks; force majeure; and finally, fraud sometimes occur.

The second channel is an educational approach to prepare management on all levels to be alert, report bad news instantly and fully and be agile in taking corrective actions. This requires a very open and communicative culture throughout the company. It also requires that the members of the Management Board be intimately involved in and knowledgeable of the details of their businesses. In our markets successful risk management to a certain degree requires a 'micro' approach and executives have to live their business with a moderate amount of hierarchies and delegation. And it also requires an intensive dialogue with the Supervisory Board.

The risk of failure to innovate (or avoid the first category of risk referred to above) is probably the most existential risk, although it is not always recognized as such. Traditional discounted cash flow (DCF) and internal rate of return (IRR) analysis implies the comparison of a project cashflow with a steady state cashflow assuming no action. In reality, a 'no action' mode tends to ultimately lead to declining financial performance as competitors take action. So traditional DCF/IRR analysis implies a systemic underestimation of incremental cash flows in market situations where, for example, 'no action' invites aggressive behaviour of competitors.

In our ferrovanadium operation in Ohio, for example, the incumbent business model was to convert vanadium-containing steel slag from South Africa. We had to purchase the slag from a competitor in our end markets. Not a good way to make an acceptable return. So we fundamentally changed the business model by investing heavily in furnace technology to process metal containing wastes from the Alberta oil sands. We took a big technology risk. Today we are 100% secondary, more diversified (three income streams: ferrovanadium, ferronickel-molybdenum and recycling fees) and are adequately profitable. And, as I mentioned, presently we are undergoing a significant expansion of that operation.

Another example: A few years ago we were in danger of losing our leadership in advanced heat treatment surface hardening technology. That triggered two corrective actions: One, a €25 million R&D expenditure to create a completely new, patented, heat treatment technology; and two, the offering of this technology by the way of an Own and Operate model. Four of those plants are in Germany, the US and Mexico. We are evaluating further expansion steps to make the case that we will build one or two of those a year.



Own and Operate Plant, South Carolina

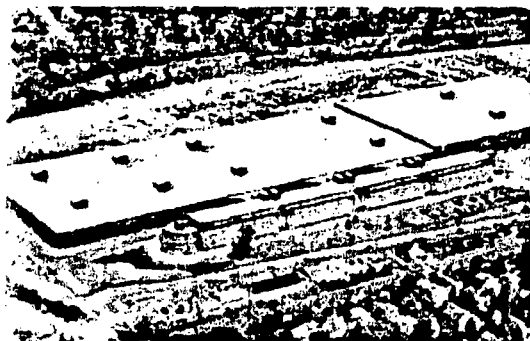
Finally, in a specialty metals company, it is important to address the risk of market and price volatility. In AMG's Engineering Systems Division market volatility occurs in slow motion, relatively speaking. Today, we are working off a backlog covering more than one year of work. Also, we have considerable information about the upcoming orders of key customers beyond our backlog. So, in the beginning of 2008, we have a rather clear picture not only of 2008 but also of our 2009 results. To increase our visibility of future earnings further we are working on several fronts, the most important of which is offering so called Own and Operate contracts, where margins are largely defined for the duration of the contract. As mentioned, we are seeking to transfer this model from heat treatment to solar furnaces. The best hedge against market volatility, however, is technology leadership in growing markets through the creation and re-creation of high margin opportunities especially in a slow economic climate. We also carefully analyze where we might be suffering from bottlenecks in our supply lines to control volatility resulting from those

bottlenecks. When necessary, as in solar components, we react promptly as described earlier in the case of our new Berlin plant for solar furnace components.

In our Advanced Materials Division market volatility can be expressed in short-term price movements which can be rather dramatic. We have been attempting to control the impact of these price movements as much as possible to reach our objective of steady growth. We did so by establishing a portfolio of more than ten specialty metals, a portfolio whose volatility is obviously much lower than the volatility of individual portfolio constituents. Second, we, through innovations, convert commodity type products into highly complex, high margin, customer specific materials with leading market position. Third, we carefully structure our market presence on various value chains to avoid capital intensive high volatility positions, where possible. Finally, we seek to be the low cost producer in whatever we do. So in ferrovanadium and ferronickel-molybdenum, because of our recycling model; in tantalum, because of our high grade mine in Brazil; and in UMSi, because of a leading technology, we are the world's lowest cost producer.

Outlook

Given the dedication of our management team, the sustainability of the trends characterizing our important markets and the strength of the technology links to those trends, we are confident that AMG's growth will be significant in 2008 and beyond. This, of course, is based on the assumption that the global economy can largely absorb the shocks originating from the financial markets and is not taking a major downturn which ultimately would affect everybody. 2008 is a year where we are very focused on the execution risks of Timminco's new UMSi plant in Bécancour, AMG's expansion in Ohio and the ramping up of the new plant in Berlin for solar



New Berlin Solar Furnace Facility

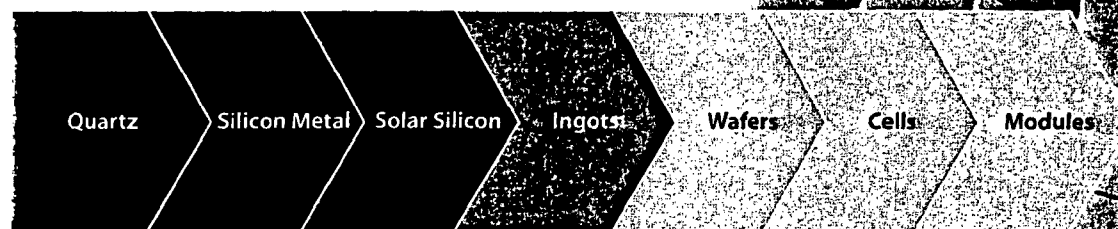
furnaces. We believe our approach will help us avoid major hiccups and have contingencies for the usual de-bugging.

Although we are pleased with our 2007 performance, it is not a substitute for continued progress. We look forward to a long and profitable relationship with all of our stakeholders.

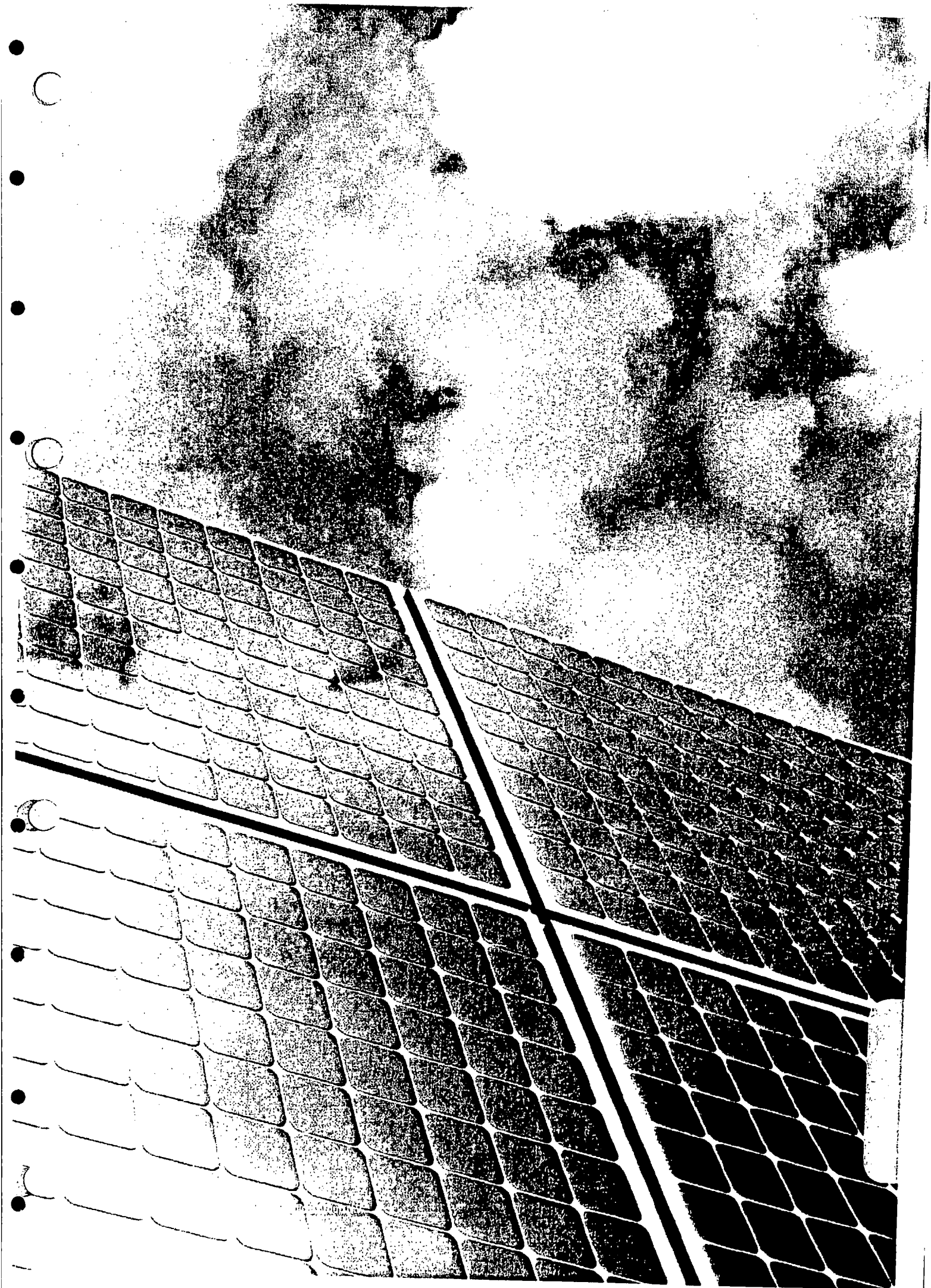
solar energy

The message from society at large and from business in particular is clear: the world must find a more sustainable, environmentally-friendly way to grow. AMG has focused on sustainable development for the past ten years with an emphasis on solar energy.

In executing its strategy to combine production know-how with engineering expertise, AMG's participation in the solar industry falls across a spectrum of activities.



- Excellence in metallurgical products begins with high-quality feedstock. Timminco has secured the mineral rights to a body of quartz which has fewer of the impurities which degrade solar silicon.
- At its Bécancour plant, Timminco annually produces 50,000 metric tons of silicon metal: the necessary ingredient for both polysilicon and UMSi. Timminco has sufficient silicon metal to feed its existing and planned UMSi plants.
- In the next step of the solar silicon process, both Timminco and the Engineering Systems Division are world leaders. At Timminco, a proprietary process enables the direct production of UMSi from silicon metal feedstock. Timminco has announced the construction of a new plant adjoining its existing facility to increase its annual production capacity from 3,600 mt to 14,400 mt by 2009. The Engineering Systems Division has designed the world's largest processing system for large-scale production of metallurgical route solar silicon feedstock for a major European customer.
- To produce solar ingots, UMSi or polysilicon is processed in a specially-designed vacuum furnace. AMG's Engineering Systems Division is a world leading designer of these furnaces. Order intake for these furnaces increased from \$26 million in 2006 to \$201 million in 2007, resulting in a backlog of over \$100 million. In order to keep up with demand for these furnaces, AMG acquired a new 45,000 square meter facility in Berlin in 2007.
- AMG's Advanced Materials Division also has a unique position in producing zinc oxide targets for thin film solar applications.



Report of the Management Board



Dr. Heinz Schimmelbusch
Chairman & Chief Executive Officer (63)

Dr. Schimmelbusch was appointed Chief Executive Officer and Chairman of the Management Board on November 21, 2006. He was the CEO or Chairman of the Management Board of Directors of the businesses comprising AMG since 1998. Dr. Schimmelbusch also serves as non-executive chairman of the board of various companies, including Allied Resource Corporation, Wayne, Pennsylvania, United States; and PFW Aerospace, Speyer, Germany; and is a member of the board of directors of JSC MMC Norilsk Nickel, Moscow, Russia. 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. Arthur Spector
Deputy Chairman (67)

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. William Levy
Chief Financial Officer (48)

Mr. Levy was appointed chief financial officer and member of the Management Board on April 1, 2007. Mr. Levy was employed by a subsidiary of AMG since 2005. Previously, he was employed as 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, Pennsylvania, United States. Mr. Levy received a BS degree in accountancy (magna cum laude) from Villanova University, United States.



Mr. Eric Jackson
President, Advanced Materials (55)

Mr. Jackson was appointed president of the Advanced Materials Division and member of the Management Board on April 1, 2007. Mr. Jackson 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
President, Engineering Systems (56)

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, Stuttgart, Germany. He was a member of the executive board of directors 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.

Business Review

Advanced Materials Division

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

Financial Performance

\$688.0M

Revenue increased 13.7% over 2006

\$55.0M

EBITDA grew by 18.3% from the comparable period in 2006

2007 Highlights

- AMG increased its ownership position in FNE, a producer of high technology coating materials, from 24.9% to 100%
- AMG's Brazilian operation commenced an expansion program to double its tantalum mining capacity to produce 300,000 pounds of tantalum concentrates per year. This project is scheduled to be completed in mid-2008
- AMG started a project to more than double its Brazilian hydroelectric power plant capacity to supply 100% of the operation's electricity requirements. This project will be completed and operational at the beginning of 2009
- The Cambridge, Ohio facility completed the first phase of a three phase expansion program, rebuilding its primary electric arc furnace and effectively increasing capacity by 15%
- The Advanced Materials Division implemented the GRI Sustainability Reporting Guidelines and appointed a Director of Sustainable Development

Mr. Eric E. Jackson
President, Advanced Materials Division

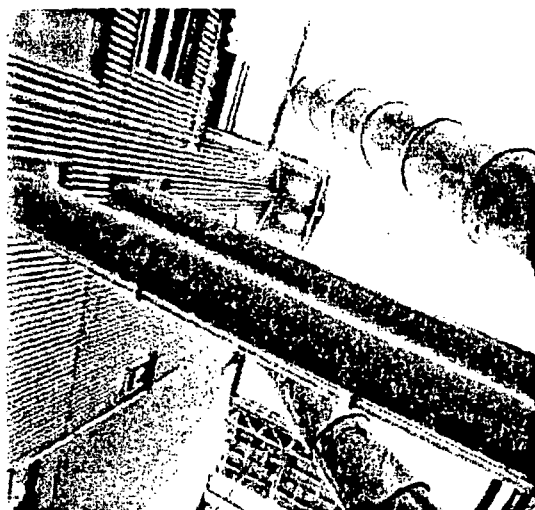


Advanced Materials Revenue by Product 2007 \$ million

		%
Ferrovanadium	67.2	9.8
Ferronickel-molybdenum	23.7	3.4
Aluminum master alloys / compacted products	150.7	21.9
Chromium metal	44.0	6.4
Ferrotitanium	31.0	4.5
Tantalum and niobium oxides	13.5	2.0
Antimony trioxide	72.0	10.5
Vanadium chemicals	18.3	2.7
Specialty alloys for titanium and superalloys, coating materials and metals-based powders	149.6	21.7
Other	118.0	17.1
Total	688.0	

Capital Investment

AMG has continued to invest throughout the world: a new solar silicon plant at Bécancour, a new production facility in Berlin, the expansion of a hydroelectric power plant in Brazil, a new Own and Operate plant in Mexico and the expansion of recycling facilities in Ohio are examples.



Key Products

Product	Functionality	Applications	End markets
Ferrovandium (FEROVAN®)	Improves strength and hardenability	High-strength low alloy steels (HSLA), special bar quality steels (SBQ), tool steels and pipe	Construction, energy and transportation
Ferronickel-molybdenum (FeNiMoly®)	Corrosion resistance	Stainless steel and SBQ steel	Automotive, architectural, chemical and energy transmission
Titanium master alloys, coating materials and other specialty metals-based products and powders	Improve mechanical properties, wear resistance, and functionality of metals	Turbine components, high temperature metal applications, thin film photovoltaics, PVD surface treatment	Aerospace, solar energy, large area glass and tools
Aluminum master alloys/Compacted alloying products	Improves grain structure, surface appearance, strength and ductility of aluminum	Aluminum billets, extrusions, sheet metal, foil, electrical cables and beverage cans	Transportation, construction, aerospace and packaging
Chromium metal	Improves high temperature, wear and corrosion resistance of alloys	Stainless steel, gas turbines, jet engines, pumps and pipes used in petrochemical refineries	Aerospace, energy and transportation
Ferrotitanium	Improves strength and corrosion resistance	Steel and stainless steel	Construction, automotive and energy
Tantalum and niobium oxides	Improve conductivity, resistance to heat and corrosion in nickel and cobalt-based superalloys	Electronic capacitors in laptops and cell phones, hard cutting tools, x rays and gas turbines	Electronics and construction
Antimony trioxide	Flame retardant	Cable housings, plastics and textiles	Electronics, building materials and transportation
Vanadium chemicals	Catalysts, UV absorption and pigments	Catalysts in sulfuric acid plants, oil and organic reactions	Chemical, paints and special glass production

Operations

AMG's Carlsberg operations delivered strong financial results driven by increased volumes and stable pricing for ferrovandium (FEROVAN®) and ferronickel-molybdenum (FeNiMoly®). The Company sold 4.2 million pounds of FEROVAN® (V contained), an 8% increase over 2006.

The Company also completed an upgrade of its primary electric arc furnace resulting in an effective 15% increase in capacity. Preliminary engineering was completed for additional expansion phases.

One of AMG's most sophisticated metallurgical operations is located in Nuremberg, Germany. In these facilities, AMG develops and produces materials such as specialty alloys for titanium used in aerospace applications – coating materials

for wear resistance, optics, electronic and solar applications – and vanadium chemicals which play an important role in a wide variety of applications including catalysts and UV absorption.

The Nuremberg operations completed the acquisition of FNE in 2007. Located in the heart of Germany's 'Solar Valley', FNE possesses a number of patents and proprietary process technologies in large area and photovoltaic coating materials. FNE's operational activities were integrated into Nuremberg's existing coating materials unit during the year, resulting in a doubling of revenues. The coating materials unit continues to focus on the expansion and development of complex materials for thin film solar applications.



Cambridge, Ohio

AMG is committed to achieving the highest standards of environmental excellence at all of its production facilities. At its Cambridge, Ohio site, AMG was faced with environmental issues left by the prior landowner. In cooperation with the Ohio Environmental Protection Agency, AMG recently completed significant remediation activities including the removal of contaminated sediments, the capping of two slag piles and the restoration and creation of new wetland habitats. More than 88 acres of remediated open space now surround the plant.





Ernst Wallis, Nuremberg, Germany

The Nuremberg specialty alloys unit completed a very successful year and continues to focus on the improvement and modification of multinary masteralloys to optimize its customers' manufacturing processes. The Company completed investments to expand its hydrogenation/dehydrogenation capacity for the production of titanium powders and insourced a significant step in the process to extract vanadium and nickel from secondary raw materials. Bio-compatible titanium alloys and next generation alloys such as gamma titanium aluminide for engine turbine blades are also being expanded.

In its United Kingdom facility AMG produces aluminum master alloys and compacted alloying products used by aluminum producers to improve grain structure, surface quality, strength and ductility. The UK facility also produces chromium metal, a critical component of nickel-based superalloys.



Itamar Resende, Rotherham, UK

Operating income at this facility increased significantly in 2007 compared to 2006. The primary driver of the improvement was increased profitability in the aluminum master alloys business unit, which was a result of a significantly lower cost structure based on a 2006 restructuring program and an increase in volume. Chromium metal volumes and margins improved during the last half of the year as general market tightening was accelerated by the effects of China's implementation of a chromium export tax.

AMG's Brazilian facility produces tantalum and niobium oxides through its ownership of a tantalite mine and chemical plant that converts tantalum and niobium ores to oxides. Additionally, the Brazilian operation produces aluminum master alloys and compacted products similar to those produced at its plant in the United Kingdom. The financial performance of the Brazilian operation was substantially improved in 2007 compared to 2006. Similar to the United Kingdom operations, the improvement was largely the result of a restructuring program and improved aluminum master alloy volume. Tantalum prices improved during the year and management is executing the plan to increase sales of processed tailings from mining activities to supply the ceramics industry. Sales to this industry increased by 20% over 2006.

AMG is the largest European producer of antimony-trioxide, whose primary application is as an ingredient in flame retardants. Over the last several years, increasing amounts of antimony-trioxide is shipped in value-added forms such as pastes, pellets and masterbatches. These French operations continued to deliver consistent and improving profitability with a 12% increase in operating income in 2007 compared to 2006. The business continues to work on developing the next generation of flame retardant materials.



Charles-Antoine Rougier, Paris, France

Outlook

The Advanced Materials Division is experiencing strong fundamental growth in most of its major markets. The Company's focus on lighter weight, higher performance materials, as well as sustainable development, positions it to capitalize on the global trend to reduce fuel consumption and CO₂ emissions. AMG continues to focus on product and process development, cost reduction and productivity improvement. Great importance is also placed on continuing and strengthening sustainable development initiatives and the Company believes that this will be a significant driver of continued performance improvement. The future lies in assisting oil refineries in Alberta by recycling their waste catalysts and assisting customers to use lighter-weight, higher performance materials and while doing so leaving a reduced carbon footprint ourselves.

Report of the Management Board

fuel efficiency

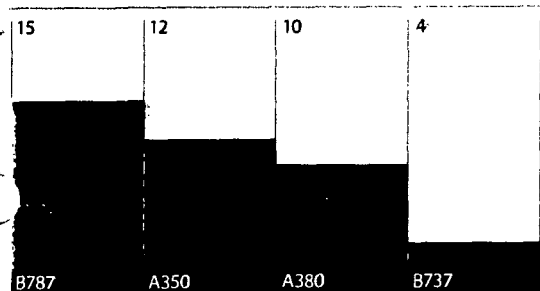
Globalization and the growth of developing nations are accelerating a boom in the transportation industry. More planes are being built than at any time in history and more cars are on the roads than ever before. The transportation industry spent over \$554 billion on fuel and released more than 2 billion tons of CO₂ into the air in 2006, in the US alone. Many of AMG's products contribute to increased fuel efficiency and reduced carbon emissions.

Global Surge in Titanium Usage

Weight reduction is a significant force in fuel reduction and lowering carbon emissions -- and a major element in weight reduction is titanium.

The largest use for titanium is in aircraft. Titanium's properties, namely its high strength and light weight, have led to the global demand for titanium sponge increasing at a compound growth rate of 19% between 2003 and 2006. Increased use of titanium as a percentage of an aircraft's total weight and the increase in aircraft build rates will lead to continued growth of the titanium industry. Both of AMG's operating groups have market leading positions within the titanium industry, enabling AMG to capitalize on this global trend.

Titanium as a % of total weight



The Advanced Materials Division produces materials, such as vanadium-aluminum, and nickel-niobium, which are sold to the titanium and superalloy industries. The Advanced Materials Division's products are ultimately used in aerospace engines and structures as well as other industries including energy and chemical.

The Engineering Systems Division is the world's leading producer of vacuum melting furnace systems for the production of titanium metal. The Engineering Systems Division is supplying most of the furnaces to China's burgeoning titanium industry, estimated to grow from approximately 20,000 tons of titanium sponge to over 125,000 tons capacity in the next three to five years. The Engineering Systems Division also produces advanced electron beam melting furnaces for titanium, tantalum and niobium production.

Next Generation Automotive Engines

Governments around the world are instituting higher fuel efficiency requirements for automobile manufacturers. Recognizing this trend, the Engineering Systems Division invested over \$20 million to develop industry leading heat treatment and gas quenching furnaces for the automotive industry. These furnace systems harden and improve the properties of automotive parts including gears, fuel injectors and other engine components. The higher quality parts produced using the Engineering Systems Division's furnaces leads to improved fuel efficiency in automobiles. In addition to selling these furnaces, AMG also has four facilities where it owns and operates these furnaces on a fee-per part basis.

Business Review Engineering Systems Division

The Engineering Systems Division traces its origins to companies founded in the mid-19th century and has been producing advanced vacuum furnace systems for nearly 100 years.

Financial Performance

\$312.1M

Revenue increased 87% over 2006

\$69.3M

EBITDA grew by 143% from the comparable period in 2006

2007 Highlights

- In addition to record revenues, the Engineering Systems Division had a record backlog of \$252 million in furnace orders at year end – an all time high
- The Division acquired a new furnace production facility in Berlin thereby relieving capacity constraints at its main plant and at suppliers
- A new Own and Operate facility was constructed in Mexico
- The Division entered into a new joint venture with a French partner in preparation for an expansion of its nuclear energy business

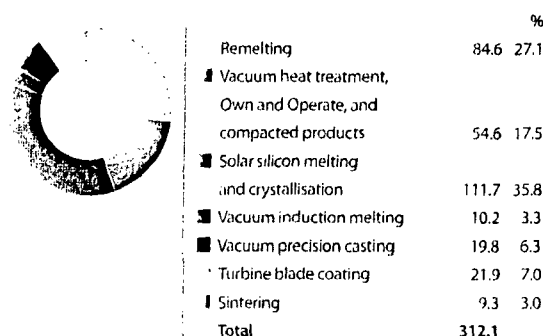
The Division designs, engineers and produces advanced vacuum furnace systems and operates vacuum heat treatment facilities. Within the Division lays the heart of AMG's innovation in vacuum metallurgy and heat treatment.

Via its worldwide network the Division sells vacuum furnace systems for the production and processing of various metals and alloys to customers supplying crucial components for the aerospace, energy (including solar-photovoltaic and nuclear), transportation and electronics industries. Examples of furnace systems include vacuum remelting, turbine blade coating, solar silicon melting and crystallisation furnaces as well as vacuum heat treatment furnace systems.

Dr. Reinhard Walter and Associates
Engineering Systems Division



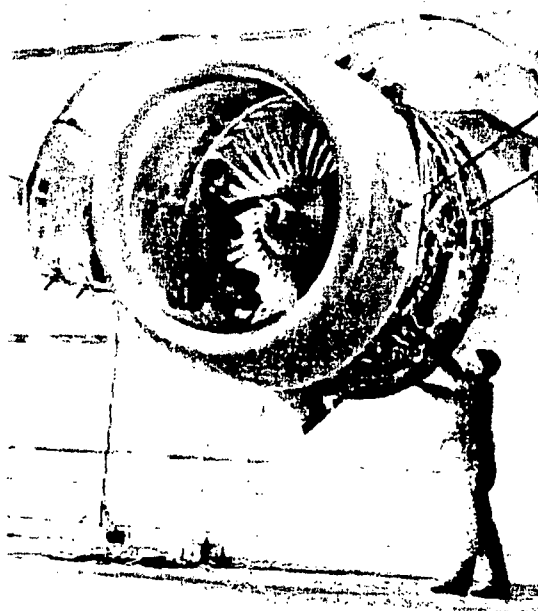
Engineering Systems Revenue by Product 2007 \$ million



Protective Coatings for Turbine Blades

Paper-thin zirconium oxide coatings on turbine blades and vanes allow today's aircraft engines to be operated at temperatures high above the melting point of the material of which the blades and vanes are made. Running gas turbines at higher temperatures means running engines more efficiently (less fuel consumption) and with significantly less CO₂ emissions. With air traffic growth of more than 5% annually, this is an important environmental contribution!

Almost all modern aircraft engines use coated blades and vanes in the hot section of the turbine. Electron beam/physical vapour deposition (EB/PVD) has become the preferred furnace technology to apply such coatings. AMG supplies major aerospace engine manufacturers with these furnaces:



Key Products

Furnace type	Specific product	Applications	End markets
Remelting	Vacuum arc remelting furnaces Electro slag remelting furnaces	Tool steels, titanium ingots and superalloy ingots	Aerospace, titanium, energy, transportation and medical
Vacuum heat treatment and high-pressure gas quenching	Vacuum case-hardening furnaces Plasma carburising furnaces	Gears, diesel fuel injectors, engine components and tools	Transportation, aerospace and tooling
Solar silicon melting and crystallisation	Silicon melting and crystallisation furnaces	Solar wafers	Energy (solar photovoltaic)
Vacuum induction melting	Vacuum induction degassing and pouring furnaces	Ingots and electrodes Steel and rods	Aerospace, transportation and chemical
Vacuum precision casting	Precision casting furnaces for equiax casting and directional solidification casting	Turbine blades, golf club heads, medical implants and engine components	Aerospace, leisure, medical and energy
Turbine blade coating	Electron beam physical vapour deposition furnaces	Turbine blades	Aerospace and energy
Sintering	Vacuum sintering furnaces and high-pressure sintering furnaces	Tools, magnets and nuclear fuels	Tooling, metals and energy (nuclear)

The Division also provides case hardening and heat treatment services on a fee per part, or tolling, basis to customers through facilities equipped with vacuum heat treatment furnaces designed and produced by the Division (Own and Operate facilities).

The Division operates production facilities in the US and Germany. A new Own and Operate facility has recently commenced operations in Mexico. Sales and customer service offices are operative in China, the US, Japan, the UK, Russia and Poland.

Markets

The demand for high-tech alloys and metals in the aerospace, energy and automotive industries continued at a record pace in 2007. As a result, capital investments in those industries drove high order intake for our products. Within the product portfolio, solar silicon furnaces and remelting furnaces for titanium showed extraordinarily high demand.

Once again markets in China and Europe were remarkably strong, primarily driven by strong investments into titanium and solar silicon production. The Division solidified its world-wide leadership in vacuum arc remelting furnaces for titanium production and commenced operation of the largest electron beam melting furnace in China.

Delivery of Furnace Systems

Total order intake for the Engineering Systems Division increased 109% to \$437 million in 2007 leading to a year of record revenue of \$312 million and record EBITDA of \$69 million, respectively up 87% and 143% from the prior year.

Furnace requirements from titanium producers and the rapidly growing solar power industry accounted for the majority of the growth in order intake. In particular, order intake from the solar industry increased approximately eight-fold from \$26 million in 2006 to \$201 million in 2007.



AMG increases in-house capacity in Germany

By mid-2007 AMG had capacity constraints in producing single crucible solar furnaces – solving this problem was crucial to continued expansion.

The Engineering Systems Division subcontracted all of its production of these furnaces to a network of experienced suppliers, each of whom enjoys more than ten years of experience in supplying high tech components to AMG. The significant increase in demand for AMG's single crucible vacuum furnaces for the production of solar silicon ingots and for titanium furnaces was straining the resources of these suppliers. This resulted in longer lead times for furnace deliveries to customers and potential lost sales opportunities.

Reluctant to contract with new and inexperienced suppliers, the Engineering Systems Division made the decision to establish its own in-house production capability.

The Engineering Systems Division engaged in a search throughout Germany for an existing, modern industrial complex.

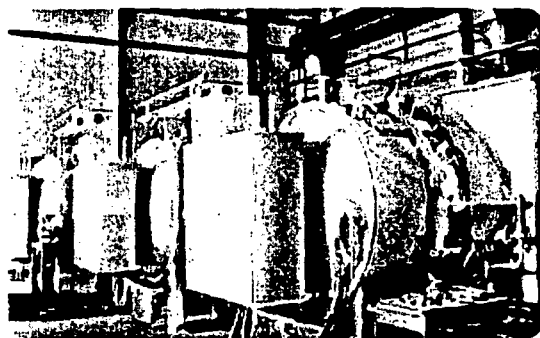
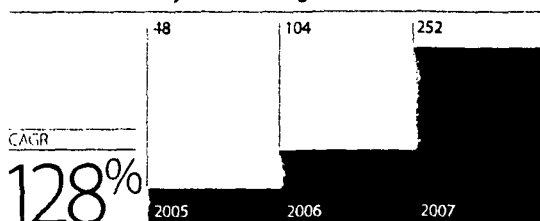
Finding the ideal location in Berlin, the Engineering Systems Division joined in partnership with one of its existing suppliers to acquire the Berlin complex and to construct an in-house state-of-the-art manufacturing facility. Along with its partner, the Engineering Systems Division acquired the 117,000 m² industrial complex in Berlin, in July 2007. The complex includes a 38,000 m² multi-purpose production building as well as 7,700 m² of office space, a workshop and social facilities. The Division owns 51% of the joint venture with the remaining interest owned by its supplier partner.

AMG was able to begin production quickly since the prior occupant was a multi-national manufacturer of construction machines. Existing utilities infrastructure, manufacturing equipment acquired with the site and access to the prior owner's well trained staff was of great importance for a fast start of production. The Engineering Systems Division began producing furnaces within four months of the acquisition of the facility.

Report of the Management Board

Business Review – Engineering Systems Division

Year End Furnace Systems Backlog \$ million



Orders for heat treatment systems (above) for vacuum carburizing and gas quenching systems for the automotive industry grew by more than 40% compared to the prior year. These furnaces improve the quality of transmissions and fuel injection pumps leading to reduced fuel consumption in automobiles.

The rapidly growing demand for AMG's furnace systems led to a backlog of over \$250 million at the end of 2007, a significant increase from 2006 and 2005 year end backlogs of \$104 million and \$48 million, respectively.

New Product Development

The Engineering Systems Division vigorously pushed forward the development of new products during the year. In solar energy, there were three significant developments – a newly designed single crucible furnace, a new generation of multi-crucible furnaces and advanced equipment technology for a metallurgical route to produce solar silicon feedstock for one of Europe's largest producers.

Other new furnace developments include advanced casting technology for turbine blades for jet engines and a new generation of electron beam based energy sources to process refractory metals at temperatures above 2,000° C.

The Division also initiated a significant research and development program to improve performance of its established furnace systems and to prepare access to new markets, such as heat treatment in aerospace and nuclear.

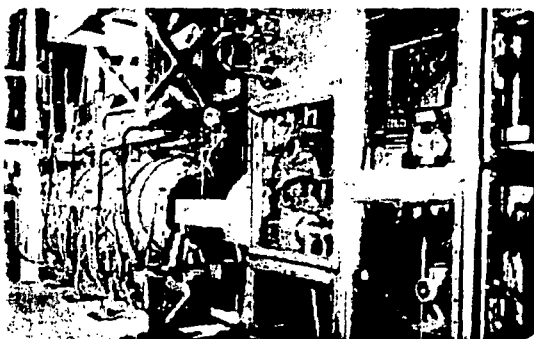
New Facilities

Excellent top line growth stretched capacities at the Engineering Systems Division's suppliers. To alleviate capacity issues, the Division in-sourced certain production steps for furnaces, in cooperation with one of its suppliers at a newly acquired production facility in Berlin. The 45,000 m² production facility was acquired in July 2007. Production started in the fourth quarter to supply advanced solar silicon furnaces. Other product lines such as vacuum arc remelting furnaces will follow as soon as necessary additions to the equipment are installed and the training of employees is accomplished.

The heat treatment division expanded its Own and Operate facilities by more than 50% to service its established customers in the automotive and aerospace industries. A new facility in Mexico was established in Ramos Arizpe and is scheduled to start production in the first quarter of 2008.

Nuclear Joint Venture

The Engineering Systems Division entered into a joint venture 'Furnace Nuclear Applications Grenoble' (FNAG) with the French company, ECM Industrial Furnaces Grenoble for the production of nuclear fuel sintering and



related furnaces. This joint venture is well positioned to serve the demand of large-scale projects to produce mixed oxide fuel, which enables the use of plutonium as a fuel for nuclear reactors. The joint venture will commence operations in the first quarter 2008. AMG believes that new demand for nuclear products world-wide could lead to significant expansion of the joint venture.

Outlook

The Engineering Systems Division's main markets continue to exhibit strong growth rates. The increased capacity of the Berlin site positions the Division to capitalize on these global trends. New business in countries such as India and Russia offers significant opportunities to maintain the level of performance.

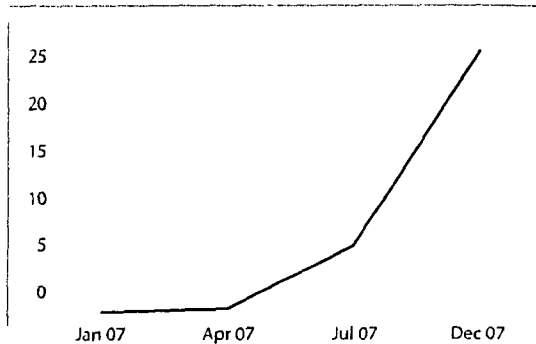
Business Review

Timminco Limited

AMG, through its majority owned subsidiary Timminco, is a leader in the production of upgraded metallurgical silicon ('UMSi' or 'solar grade silicon') for the rapidly growing solar photovoltaic energy industry.

Timminco Stock Performance

Timminco Stock Price Chart



2007 Highlights

- Timminco built its solar grade silicon business from a small commercial plant at the beginning of the year to a full-scale, 3,600 mt per year facility by December
- Timminco delivered 33 mt of solar grade silicon in the fourth quarter of 2007, bringing cumulative shipments for the year to 89 mt
- Timminco signed long-term contracts for the supply of solar grade silicon with four customers during 2007
- Timminco raised \$108.8 million in gross proceeds from two common share offerings during the year. The proceeds were used to fund the expansion, repay all bank debt and provide funding for further expansion, as required

Timminco's net loss for 2007 stemmed from its legacy businesses, silicon metal and magnesium. Despite poor operating performance, Timminco ended the year in a strong financial position as the result of infusions of common stock equity of \$108.8 million. Further, most of Timminco's resources and efforts were focused on its new business, the production of solar grade silicon for use in the manufacture of solar cells. Using its proprietary technology, Timminco processes metallurgical grade silicon into solar grade silicon at its Bécancour plant ('BSI').

In 2007 Timminco built a new facility to produce 3,600 mt of UMSi per year. The first production line, with 1,200 tons per year capacity, was commissioned in December 2007 and the other two lines in the first quarter of 2008. In the first quarter of 2008 Timminco announced an expansion of its solar production facility to 14,400 mt. Construction will begin in the second quarter of 2008 and production is expected by the end of the year.

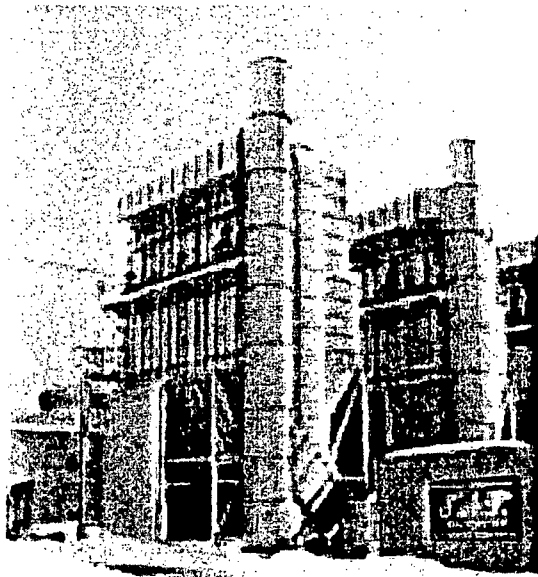
Timminco also produces silicon metal, specialty ferrosilicon, magnesium products and calcium and strontium alloys for use in a broad range of industrial applications serving the aluminum, chemical, pharmaceutical, electronics and automotive industries. The Company also owns a 47% interest in Fundo Wheels, a Norwegian aluminum wheels manufacturer.

Mr. René Boisvert
President, Bécancour Silicon, Inc. (Timminco)



New Bécancour Solar Facility

Fast-track design and construction let Timminco begin production in its new solar silicon facility less than four months after groundbreaking. Timminco's sales contracts have already outstripped the capacity of this new plant and the Company has announced an expansion program to enable it to produce 14,400 mt of UMSi annually.



Solar Grade Silicon

Timminco entered the solar grade silicon market in 2007 with sample shipments of 99.999% pure silicon ('5 nines') in January 2007. Based on two long term contracts, Timminco commenced construction of its new 3,600 mt facility in July 2007. By the end of the year, BSI had entered into two additional long-term contracts, thereby exceeding the capacity of the new plant. Anticipating new contracts to be signed in 2008, Timminco announced additional capacity expansion to 14,400 mt.

Metallurgical Silicon

BSI produces 50,000 mt of silicon metal annually for the aluminum, chemical and polysilicon (semiconductor and solar) markets, with purity levels of approximately 99%. BSI is strategically located in Quebec, Canada on the St. Lawrence river, giving it access to the European market.

BSI's business results are primarily dependent upon the market price for silicon and the efficiency of its operations (furnace up-time). Increases in prices for silicon metal have been partially offset by the strong appreciation of the Canadian dollar. Timminco believes growing demand from the polysilicon industry for metallurgical silicon will maintain prices at a relatively high level. In 2007, BSI experienced production inefficiencies related to contractual power interruptions (which have been eliminated for 2008) and maintenance shutdowns.

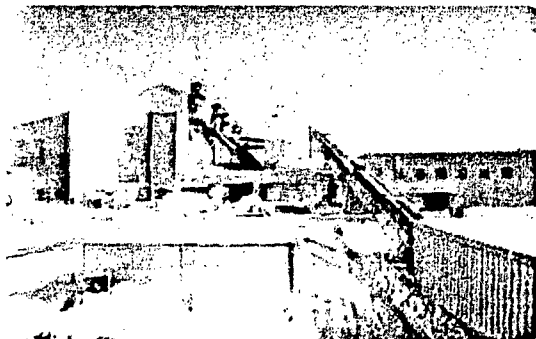
Magnesium

Timminco is the leading extruder of magnesium metal in North America, serving the water heater, construction tools and other industrial markets. Timminco also markets specialty metals and magnesium alloys.

The focus of Magnesium operations in the past year was to reduce production costs. During 2007, Timminco purchased certain feedstock in China, thereby reducing its activities in the Haley, Ontario plant. An increase in finishing activities in Mexico further reduced the cost structure of the business.

Outlook

Timminco looks forward to improvement in its silicon metal and magnesium businesses. The main focus, however, will be the continued expansion of its solar grade silicon operations. Timminco expects to sign additional long-term contracts for solar grade silicon that will be produced at its expanded facilities in 2009. This expansion will entail significant capital expenditures in 2008 as Timminco expands its production to 14,400 mt annually.



Report of the Management Board

Risk Management and Internal Control

Risk Management Approach

AMG has a dual approach to risk management. This includes a traditional 'top-down' and 'bottom-up' analysis and assessment of the Company's risks, together with a very strong focus on 'entrepreneurial risks'. AMG views entrepreneurial risks as risks deliberately taken to enable innovation and growth.

Entrepreneurial Risk Assessment

A significant percentage of AMG's revenues in 2007 were derived from products, processes or businesses which did not exist five years ago. These new products, processes and businesses required new proprietary production methods and novel approaches to respond to competitive dynamics. Undertaking these new endeavors came with risk, albeit measured risk. Continued growth of AMG's business requires the Management Board to take measured risk.

These risks are called measured risk because each project goes through a two phase risk analysis before a decision is made to proceed. The first phase is a traditional, thorough analysis of the proposed project, including likelihood of success, to determine a projected internal rate of return 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.

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

Traditional Risk Assessment

AMG is implementing a comprehensive strategic risk management program which seeks to (i) identify potential risks and quantify the impact of such risks; (ii) develop a risk mitigating or risk avoidance plan; (iii) identify adverse events that presage the actual occurrence of an identified risk; and (iv) document the periodic monitoring of the risks.

The first step in the risk management system is to specifically identify the key risks AMG faces. AMG is establishing a Risk Assessment Package (RAP) that each business unit and corporate department will update on a quarterly basis. The RAP is a comprehensive document that requires each business unit to identify all material risks to quantify the potential risk, to develop a risk management plan for the risk and document the steps taken to monitor and mitigate the risk.

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. 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.

These RAPs will be reviewed by each business unit and AMG's Strategic Risk Management officer on a quarterly basis. Key risks from all business units will then be summarized and presented to the Management Board on a quarterly basis. Individual risks of special note will be discussed at the Management Board's 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 Board of Directors will carry out a semi-annual review of the company's internal control and risk management systems.

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 fluctuations and hedging, treasury and tax functions
- **Regulatory:** includes risks related to the political, environmental and legislative environment

AMG, like most industrial companies, faces a combination of risks listed above. It is not the intention to provide details on each risk posed to AMG in this report. The most noteworthy risks AMG faces are summarized below.

Technology Risk

The continued growth of AMG's business requires the development of new products and new production processes. Developing these new products and production processes involves risks. AMG continues to face risks in the scale-up of new production facilities/methods and in new technologies or products.

An example of managing such a risk was AMG's scale-up of its metallurgical route solar silicon business. Its BSi subsidiary recently completed construction of a new facility with a capacity to produce annually 3,600 mt of metallurgical grade solar silicon. This capacity represented more than 10 times BSi's then current production capacity. In order to mitigate the risk of such a large scale expansion, BSi constructed the new facility modularly, so that the 3,600 mt of capacity is divided into three production lines of 1,200 mt capacity, each. Additionally, the production lines were installed sequentially to enable a learning curve on one line before another was commissioned.

Metal Price Risk

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

An example of mitigating metal price risk by strategic initiative occurred in AMG's ferrovanadium business. To mitigate this risk AMG converted its ferrovanadium production facility to process 100% secondary materials. As a recycler of vanadium-containing waste materials – spent catalysts from oil refineries and power plant residues and ashes – AMG is able to negotiate contracts for waste materials that reduce its exposure to downturns in vanadium prices. One such contract further reduces price exposure by requiring the supplier to pay processing fees to AMG. Additionally, the waste materials AMG converts contain other metals – molybdenum and nickel – it is able to extract and sell, thereby diversifying its revenue base.

Most metals AMG processes and sells, such as chromium metal, tantalum, 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 in which price is determined by the same index. AMG also attempts to time its raw material purchases with sales orders from customers.

When metals can be hedged, as with aluminum, the Company does so. In its aluminum business, AMG also sells conversion services with no metal price risk.

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 also mitigates price risk for some of its strategically important products by owning mines, such as a quartz mine for the production of silicon metal and a tantalite mine for producing tantalum oxide.

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. AMG typically enters 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 – 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.

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.

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 becomes effective in the European Union in June 2007. REACH will require new operational procedures regarding the registration, evaluation and authorization of chemical substances.

Risk Monitoring and Procedures

AMG has a strategic risk function to monitor and establish internal controls to mitigate business and financial risks. As a new 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 Manager 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

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

During 2007 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.1.8).

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 2007 and there are no indications that, in relation to AMG's financial reporting, these systems will not operate effectively in 2008.

Management Board

AMG Advanced Metallurgical Group N.V.

Heinz Schimmelbusch	Eric Jackson
Arthur Spector	Reinhard Walter
William Levy	

March 28, 2008

Report of the Supervisory Board



Pedro Pablo Kuczynski (Chairman)

Male/US and Peru (69)
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 S.A.
Former position: Prime Minister of
Peru and First Boston International
(Credit Suisse) (Chairman).



Andrei Bougrov

Male/Russia (55)
Date of birth: June 27, 1952
Date of initial appointment:
June 6, 2007
Date of end of term: 2008
Corporate Director
Managing Director, Interros. Current
board positions, I/ST Equity Partners,
LLC, JSC Rosbank, JSC MMC Norilsk
Nickel, Power Generating Company
OGK 3 (Chairman).
Former position: Member of the Board
of the World Bank



Wesley Clark

Male/US (63)
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,
Adam Aircraft, Inc., Coffeyville
Resources LLC and Prysmian S.R.L.
Former position: NATO Supreme Allied
Commander, Europe



Jack L. Messman

Male/US (68)
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 position: Chief Executive
Officer, Novell, Inc. and Union Pacific
Resources Corporation.



Norbert Quinkert

Male/Germany (65)
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,
Motorola GmbH, PFW Aerospace
GmbH, QSC AG, VTION AG (Vice
Chairman), WISTA Management GmbH
(Chairman).
Former position: Motorola
(Germany, Austria, Switzerland and
The Netherlands) (Chairman).



Guy de Selliers

Male/Belgium (55)
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, Allied Resource
Corporation, JSC MMC Norilsk Nickel,
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 AMG and the business as a whole.

Composition of the Supervisory Board

The Supervisory Board was established on June 6, 2007. 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.

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.

The Resignation Schedule of the Supervisory Board is:

Pedro Pablo Kuczynski	2011
Andrei Bougrov	2008
Wesley Clark	2009
Jack Messman	2009
Norbert Quinkert	2010
Guy de Selliers	2010

Dr. Bougrov will resign by rotation from the Supervisory Board at the Annual General Meeting on May 13, 2008. Dr. Bougrov is eligible for immediate reappointment for a period of four years. The Supervisory Board proposes the reappointment of Dr. Bougrov. A nomination for his appointment will be submitted to the General Meeting at the 2008 Annual General Meeting.

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

Supervisory Board Meetings

The Supervisory Board held three meetings in person with the Management Board. All members attended at least two of the three meetings; a majority of them attended all meetings. 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 and operations review. 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 results of

the assessment by the Management Board of the structure of the internal risk management and control systems, as well as any significant changes thereto. Special topics in certain meetings included AMG's initial public offering and new credit facility. 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.

On November 27, 2007, the Supervisory Board (without the presence of the Management Board) met regarding the performance of the Supervisory Board and its individual members and the performance of the Management Board and its individual members.

Remuneration

Cash Remuneration: The cash compensation of members of the Supervisory Board is determined by the General Meeting. 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. Payments for 2007 were made pro rata based upon formation of the Supervisory Board on June 6, 2007.

Share Remuneration: Members of the Supervisory Board do not participate in the AMG Option Plan nor any other AMG incentive plan. As part of their annual remuneration, on June 26, 2007, the General Meeting determined to issue a number of shares for no cash consideration to each member of the Supervisory Board. The number of shares issued to each member is computed with respect to a specified amount of Euros for each member. The specified amounts of Euros are €22,500 for the Chairman, €18,500 for the Vice Chairman and €15,000 for each other member. Additional grants in the same specified amount of Euros are to be made on each anniversary of the admission of AMG to listing on the Euronext Amsterdam. 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.

Shares Held by Members of the Supervisory Board

As of December 31, 2007, the members of the Supervisory Board held 3,582 shares awarded to them in 2007 as part of their annual compensation (see 'Remuneration' above). Although Dr. Bougrov was awarded 625 shares as part of his annual remuneration, he has not taken the necessary steps for those shares to be transferred to him. Four members of the Supervisory Board held an additional 19,750 shares which had been purchased in the initial public offering. In addition, Mr Messman owns 130,000 shares of Timminco and has options to acquire an additional 75,000 shares.

Report of the Supervisory Board

Committees

The Supervisory Board has three committees, the Audit Committee, the Remuneration Committee and the Appointment and Selection 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. It will 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 three times during the year. Topics of discussion at the meetings included a review of interim financial results, documents filed with the AFM and Euronext Amsterdam, 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 also provided the audit committee with a mid-year review of the Company's accounting policies and procedures.

Present at all meetings of the Audit Committee was the Chief Financial Officer and the Deputy Chairman of the Management Board. Present at certain meetings were the Corporate Controller and AMG's auditors Ernst & Young Accountants.

Remuneration Committee:

Composition: Messrs. Messman (Chairman), Kuczynski and Dr. Bougrov.

The Remuneration Committee is responsible for establishing and reviewing material aspects of the Company's policy on compensation of members of the Management Board. This responsibility includes, but is not limited to, the preparation of: (i) a remuneration policy to be adopted by the General Meeting; 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) amendment of contractual provisions of employment contracts for certain members of the Management Board.

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 once during the year. A primary topic of discussion at the meeting was the resignation of Dr Bougrov. After discussions, the committee determined to recommend to the Supervisory Board the reappointment of Dr Bougrov for a period of four years.

Remuneration Report Remuneration Policy

The remuneration policy and structure reflects the human capital strategy of the Company, takes into account internal and external circumstances and seeks to achieve high standards of corporate governance and citizenship. AMG's policy maintains a focus on both long-term and short-term goals.

The general policy on remuneration is developed by the Remuneration Committee of the Supervisory Board and approved by the Supervisory Board before being adopted by the General Meeting. The present remuneration policy was approved by the Supervisory Board on June 6, 2007 and adopted by the General Meeting on June 26, 2007.

Included in the remuneration policy is a share option plan (the AMG Option Plan). Persons eligible to participate in the AMG Option Plan are members of the Management Board, the Supervisory Board (with the approval of the shareholders) and employees and consultants. The maximum number of shares subject to options granted to members of the Management Board cannot exceed 10% of the issued share capital at the time of grant. The maximum aggregate number of shares that may be issued pursuant to the AMG Option Plan is the lesser of 50,000,000 or 10% of the number of issued shares outstanding immediately after completion of the settlement of the Company's initial public offering. Each option entitles its holder to acquire shares at a future date at a price per share equal to the fair market value of a share on the date of grant. One quarter of the options granted to each option holder will vest on each of the first four anniversaries of the grant. There are no performance criteria to the vesting of options. Unvested options lapse upon termination of employment or consultancy except in the case of permanent disability.

As of December 31, 2007, options to acquire 1,445,000 shares had been granted to employees of the Company.

In light of AMG's international operations, the remuneration policy takes into account remuneration practices in different countries and variations in the employment markets in those countries. In order to retain the expertise and continued commitment of present members of the Management Board, the Company determined to honor existing contractual commitments, whether or not within the bounds of the policy or within the strictures of the Corporate Governance Code. The Supervisory Board also determined to provide raises in base salaries necessary to rationalize the different base salaries of individual members of the Management Board.

The Supervisory Board determined that there would be a transitional period, expected to last until June 2008, during which the Remuneration Committee would develop a policy which would take into account existing contractual commitments. During the transitional period, remuneration of the Management Board would consist of three components: base salary, an annual bonus and share options. For members of the Management Board who are not residents of the Netherlands, base salary may reflect the local markets practices in which the member is resident. During the transitional period, the annual bonus is based upon measuring each individual member of the Management Board's performance against predetermined criteria and may be up to 200% of the member's base salary. The long-term variable component of the member's remuneration is in the form of stock options.

The remuneration package of each member of the Management Board must be reviewed each year by the Supervisory Board. AMG is not permitted to grant any loans, guarantees or similar benefits to members of the Management Board.

Remuneration of the Management Board for 2007

Base Salary: The base salaries of members of the Management Board were primarily determined by their existing remuneration contracts which, in certain cases, were with more than one company now comprising AMG.

In addition, the members of the Management Board received certain base salaries based on new contracts with AMG.

Annual Bonus: Each member of the Management Board was given a target expressed as a percentage of base salary which could be achieved during 2007. These percentages ranged from 75% of base salary to 100% of base salary for the CEO. In this transitional period, each member of the Management Board was measured against qualitative criteria and not specific quantitative criteria. Based on the overall performance of AMG, the Advanced Materials Division and the Engineering Systems Division, the Supervisory Board determined that each member of the

Management Board earned his full target annual bonus for 2007. The bonus was paid one-half in 2007 and one-half in 2008 (pending confirmation of the annual results by the Company's auditors).

Long-term Incentive: Each member of the Management Board was granted options in 2007 pursuant to the provisions of the AMG Option Plan. Three members of the Management Board were granted options to acquire 100,000 shares, the Deputy Chairman was granted options to acquire 200,000 shares and the CEO was granted options to acquire 225,000 shares. One-quarter of the options granted on any date will vest on each of the first four anniversaries of that date. Vesting of the options is not subject to any performance requirements.

Pensions

The members of the Management Board, except for Dr. Walter and Mr. Levy, are members of the defined contribution plan at AMG's subsidiary, Metallurg. No member of the Management Board had any payment made on his behalf to the Metallurg plan in 2007. Dr. Walter is provided pension benefits in accordance with the pension plan at AMG's subsidiary, ALD. Payments made in 2007 to the ALD pension plan on behalf of Dr. Walter were €28,641. No member of the Management Board had any payment made on his behalf to any other pension plan in 2007.

Retirement Benefits

The contracts for Dr. Schimmelbusch, Mr. Spector and Mr. Jackson also provide for supplemental retirement benefits. The benefits for Dr. Schimmelbusch and Mr. Spector are payable commencing at the later of age 68 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. The plans for Messrs. Schimmelbusch and Spector are unfunded. 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. See Note 24 to the Consolidated Financial Statements.

Pursuant to Mr. Jackson's agreement, if Mr. Jackson is employed by Metallurg (a subsidiary of AMG) 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. Payments made to Mr. Jackson's benefit plan in 2007 were \$83,000.

Contracts

Each member of the Management Board has a contract of employment with AMG. That contract provides for a term

Report of the Supervisory Board

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.

Shares Held by Members of the Management Board

As of December 31, 2007, the members of the Management Board did not hold directly any of AMG's shares. Each member of the Management Board has certain option rights as described above. Dr. Schimmelbusch and Mr. Spector each hold derivative rights in the shares of the Company owned by Safeguard International and derivative rights in the convertible notes of Timminco owned by ALD International LLC. As of December 31, 2007, Safeguard International owned 7,142,662 shares of AMG, and ALD International LLC owned notes in AMG's subsidiary, Timminco, convertible into 17,260,448 shares of Timminco. Through Safeguard's and ALD LLC's ownership positions, Dr. Schimmelbusch and Mr. Spector own in the aggregate, approximately 517,740 shares in AMG and notes convertible into 1,252,185 shares of Timminco. In addition, Dr. Schimmelbusch owns 211,000 shares of Timminco and has options to acquire an additional 1,000,000 shares. Mr. Spector has options to acquire 950,000 shares of Timminco.

Remuneration Policy as from 2009

As stated above, AMG is in a transitional year with respect to its remuneration policy. The Remuneration Committee has been charged with establishing a new remuneration policy and, to that end, has engaged Dr. Wolfgang Apitzsch, a leading German expert in remuneration policies and planning. Dr. Apitzsch is presently working with the committee and intends to present a draft to the committee shortly. A proposal for a new remuneration policy will be proposed to the General Meeting for adoption at the 2009 Annual General Meeting.

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 initial public offering and listing on Euronext Amsterdam. Through all the work required to prepare AMG for its IPO, 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 for their daily commitment to AMG.

Annual Report 2007

The Annual Report and the 2007 Annual Accounts, audited by Ernst & Young Accountants, have been presented to the Supervisory Board.

The 2007 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 adopts the 2007 Annual Accounts.

Supervisory Board

AMG Advanced Metallurgical Group N.V.

Pedro Pablo Kuczynski, Chairman

Andrei Bougrov

Wesley Clark

Jack Messman

Norbert Quinkert

Guy de Selliers

March 28, 2008

Social Commitment

AMG's businesses pay special attention to the social needs of the communities in which they operate. The Management Board encourages AMG executives to develop programs to benefit these communities and to report regularly on their progress.

In this Annual Report, the programs in the city of São João del-Rei (MG), Brazil are featured. AMG will report on similar programs in other communities in its next Annual Report.

The historic Brazilian city of São João del-Rei houses a most important monument of the 18th century – the church of São Francisco Assis. The Company has sponsored an environmental restoration and architectural revitalization of the church and its surrounding Square. Public facilities

have been rebuilt and an old landscaping plan by the famous architect Burle Marx has been reestablished.

AMG supports education projects, including the refurbishment of state school buildings close to its mining and plant sites. Other education projects include supporting and subsidizing adult education programs, both of a vocational and non-vocational nature. AMG has also entered into agreements with various educational institutions which focus on training and helping people find their first jobs.

AMG also encourages artisanal activities, especially those which help people learn ancient techniques. Not only is there an educational aspect to this, but putting these new artisans to work increases family income.

Corporate Governance

As a Dutch listed company, AMG Advanced Metallurgical Group N.V. is required to comply with the Dutch Corporate Governance Code either by applying its best practice provisions or explaining why it deviates from any provision.

Annual Accounts and Dividend

The Management Board and the Supervisory Board have approved AMG's audited financial statements for 2007. These financial statements can be found on pages 48 to 113 of the Annual Report. Ernst & Young Accountants audited the financial statements. Their report appears on page 115.

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

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, 2007, the issued share capital of AMG amounts to €536,061.72, consisting of 26,803,086 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 29, 2008

Safeguard International Fund LP	26.56%
Luxor Management LLC	5.45%
Fidelity Fund	5.08%
Capital Research and Management Company	5.01%

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 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.

- Heinz Schimmelbusch, Chairman of the Management Board and CEO, and Arthur Spector, Member of the Management Board and Deputy Chairman, have entered into a lock-up agreement with the managers of AMG's initial public offering that prohibits them from selling any shares in AMG until July 12, 2008. Credit Suisse as sole book runner of the initial public offering can waive the provisions of the lock-up at its sole discretion. Neither Dr. Schimmelbusch nor Mr. Spector directly holds any shares in AMG. If they were to acquire shares in AMG prior to the end of the lock-up agreement, their shares will be restricted until July 12, 2008.

The Articles of Association authorize the Management Board until June 30, 2008 to issue shares and to grant rights to subscribe for shares (up to a maximum of 10% of AMG's issued share capital at the time of issue) and to restrict or exclude pre-emptive rights in connection with the issue or grant. Upon settlement of AMG's initial public offering, the authorization included in the Articles of Association expired since it had been exercised in full.

On June 26, 2007, the General Meeting resolved to designate the Management Board, until June 30, 2008, as the corporate body which, subject to the approval of the Supervisory Board, is authorized to issue shares, including any grant of rights to subscribe to shares, with the power to restrict or exclude pre-emptive rights. This authorization allows the issue of up to 10% of AMG's outstanding share capital as at the date immediately following the date of completion of the settlement of AMG's initial public offering. This authorization may be revoked at any time by the General Meeting.

On May 25, 2007, the General Meeting resolved to authorize the Management Board for a period of 18 months from that date (until November 25, 2008) to effect acquisitions of shares by AMG. The number of shares to be acquired is limited to the maximum number of shares – as permitted within the limits of the law and the Articles of Association – that AMG may at any time hold in its own share capital, 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 not more than 10% above or below the stock exchange price. The stock exchange price is the average of the closing price of the shares at Euronext Amsterdam on the five consecutive trading days immediately preceding the day of purchase.

Management Board

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 for a maximum term of four years and may be reappointed for additional terms not exceeding four years. The General Meeting 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 may only appoint one of the nominated persons, unless the General Meeting 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. The General Meeting and the Supervisory Board may suspend a member of the Management Board at any time. A resolution of the General Meeting 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, in which case an absolute majority is required but without any quorum requirement. The number of members of the Supervisory Board will be determined by the General Meeting 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 provides otherwise, a member of the Supervisory Board cannot be reappointed for more than three terms of four years.

The General Meeting 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 may only appoint one of the nominated persons, unless the General Meeting 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. The General Meeting may, at any time, suspend or remove members of the Supervisory Board. A resolution of the General Meeting 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.

Articles of Association

The Articles of Association can be amended by a resolution of the General Meeting on a proposal of the Management Board which has been approved by the Supervisory Board. A resolution of the General Meeting to amend the Articles of Association which has not been taken on proposal of the Management Board and prior

Corporate Governance

approval of the Supervisory Board should be taken by a majority of at least two-thirds of the votes cast in a meeting in which at least fifty percent of the issued 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 of AMG which are affected, changed or terminated subject to a condition of a change of control.

AMG is a party to an agreement that will be terminated under the condition of a change of control over AMG as a result of a public offer. AMG's Credit Agreement has a provision that requires AMG to repay the entire outstanding amount under its Credit Agreement upon a change of control, as defined therein.

AMG is also a party to 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 upon a change of control.

Other than the above mentioned agreements, AMG does not have 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

AMG endorses the Corporate Governance Code's principles and applies virtually all best practice provisions. Deviations from the best practice provisions involve the remuneration policies of AMG. In particular these deviations stem from the specialized nature of AMG'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.

There will be a transitional period to last until June 2008 during which the Remuneration Committee of the Supervisory Board will develop an appropriate remuneration policy for the present members of the Management Board and any future members of the Management Board in the light of the Company's existing contractual commitments to the present members of the Management Board. The Remuneration Committee may seek advice from compensation and benefit consultants on remuneration packages offered by companies similar to the Company in terms of size and complexity.

Below are the best practice provisions not (fully) applied or applied.

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.

Shareholders at the General Meeting approved granting shares to Supervisory Board Members 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 held by such member.

Conflict of Interest

In September 2007 AMG acquired 5,136,140 common shares in the share capital of Timminco at a price of CAN \$8.50 per share in order to continue its 50.5% capital interest in Timminco following the September 2007 public offering and private placement of Timminco shares. The acquisition of the Timminco shares was approved by the Management Board and the Supervisory Board. In accordance with article 11.2 of the by-laws 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 and voting on the acquisition of the shares in the meeting of the Management Board. Furthermore, in accordance with article 12.2 of the by-laws of the Supervisory Board, Mr. Messman, who also serves as Company Director of Timminco, did not participate in the discussion and voting on the acquisition of the shares in the meeting of the Supervisory Board. Accordingly, 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 AMG and/or the members of the Management Board and the Supervisory Board were reported in the period from AMG's initial public offering up to and including December 31, 2007, other than the conflicts of interest described above. In the period from AMG's initial public offering up to and including December 31, 2007, AMG did not enter into any material transaction with a shareholder holding an interest of 10% or more in the Company's share capital.

Commitment to Sustainable Development

AMG's commitment to sustainable development is a fundamental corporate goal which is essential for delivering long-term value to AMG's shareholders and to the communities in which the Company operates.

The Company is committed to achieving the highest standards of environmental excellence at all of its manufacturing facilities. The principles of sustainable development will continue to be implemented and widened in scope throughout the Company in future years.

The Company is also committed to producing products that help its customers minimize their environmental impact. AMG products are used to make vehicles lighter, steel stronger, and consumer products longer lasting, all of which contribute to global sustainability.

This first annual report sets out the principles by which the Company intends to measure its performance in future years. Specifically, AMG is committed to reporting environmental performance according to the Global Reporting Initiative's (GRI's) G3 guidelines for sustainability reporting. The initial indicators that the Company has identified for data collection and their relationship to GRI are outlined below.

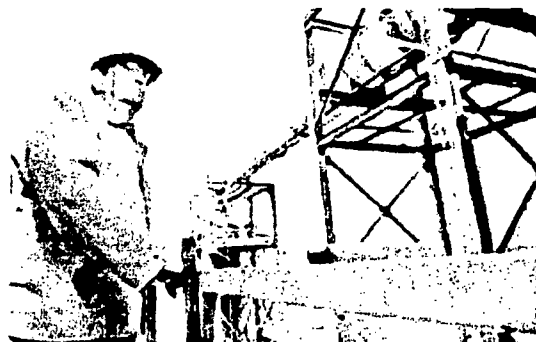
Safety – Accident Rates **GRI Aspect LA7**

The continued health and safety of all employees is a core value of AMG. Safety data will be collected to cover all accidents involving AMG employees at any of the Company's 100% owned and operated facilities. Lost time accident rates and accident severity rates will be the primary indicators used by the Company to assess its performance.

Environment – Raw Material Usage **GRI Aspect EN1, EN2**

Two main routes are available for metal production. The traditional route utilizes mined primary raw materials (ores) that undergo concentration followed by thermal or chemical treatment to extract the metal value of interest. The second route relies on the excellent recyclability of many metals and this has spawned an extensive industry based on reuse and recycling. The steel, aluminum and titanium industries all, to a varying extent, exemplify this approach.

AMG's metals manufacturing utilizes a blend of these approaches to achieve a wide range of high quality specialty alloys and additives. Full utilization of recycling, either on site or through purchase of scrap and waste materials is used both to make maximum utility of primary raw materials (reducing wastes) and to maximize the percentage of recycled materials in the overall feedstock mix.



Hoy Frakes, Cambridge, Ohio, USA



Ivan Alves, Sao Joao del Rei, Brazil and
Susan Harrier, Cambridge, Ohio, USA

Further, AMG specializes in a third approach, utilizing wastes – byproducts from other industries that would otherwise have no commercial value – and treating them through high temperature processes to produce one or more engineered specialty alloys and minimal waste.

AMG will report on its raw material usage and the split between primary and secondary recycled materials as a means to identify opportunities to increase its usage of recycled raw materials.

Environment – Energy Usage

GRI Aspect EN3, EN4

Energy efficiency is a key tool in achieving reduced greenhouse gas (GHG) emissions at AMG manufacturing facilities. Production of metals by pyrometallurgical routes is a high energy process; careful management, through insulation, heat recovery and use of exothermic chemical processes, can control the amount of energy required to achieve the high temperatures required. By utilizing recycling and the use of non-traditional raw materials, such as power plant residues for the manufacture of vanadium chemicals and alloys, AMG can achieve energy efficiencies for some of its products over 'mine and refine' type metals manufacturing processes.

Future energy consumption data will concentrate on the two fundamental energy carriers; direct and indirect energy. For AMG sites, indirect energy almost exclusively encompasses the purchase of electricity, while direct energy includes, among others, the onsite combustion of natural gas, gasoline and other fuel oils for heating and transportation purposes.

Environment – Water Management

GRI Aspect EN8

Although AMG's manufacturing operations do not, at this point in time, take place in particularly arid regions where water is constrained, AMG recognizes that prudent use of water reserves is an important sustainable business practice. Even in water abundant areas, careful management of raw water usage can save energy associated with pumping and effluent treatment costs, and can help minimize effects on water quality through the control of discharges.

Several of AMG's businesses, notably the antimony trioxide plants in France and aluminum powder plants in the UK, run essentially dry production processes utilizing water almost exclusively for drinking and sanitary uses. AMG will collect data on water usage and use this data to identify opportunities for water recycling and water usage reduction projects.

Environment – Climate Change

GRI Aspect EN16, EN17

Evidence is reported on an almost daily basis that demonstrates climate change is a reality and is most likely caused by man's activity. AMG recognizes that a worldwide response at every level of society, personal, commercial and governmental, is urgently required to address climate change while promoting progress and growth.

AMG aims to contribute to this effort on two levels; by producing materials that help our customers to reduce their environmental impact and by making those products using the most environmentally efficient routes available, utilizing renewable and lower emission energy sources where they are available.

Commitment to Sustainable Development

Emissions at AMG Facilities

Greenhouse gas emissions at AMG sites occur almost exclusively as a result of energy usage through utilization of electricity, and burning natural gas, oil or other hydrocarbon based fuels. Emissions of other gases known to contribute to climate change, including methane and nitrous oxide, are of lower significance.

Whilst energy efficiency is the main tool used at the sites to combat climate change, the carbon footprint of the sites is significantly affected by the local power suppliers. Thus in France where nuclear power provides the majority of the electricity and in Brazil where hydroelectric is predominant, remarkably low carbon emissions are associated with operations.

AMG's hydroelectric power plant in Brazil is only 5km from the manufacturing site in Sao Joao del Rei. The plant will have its capacity tripled over the next two years and the Company is now moving towards self-sufficiency in zero emissions energy, and may even be able to commercialize excess capacity in the future.

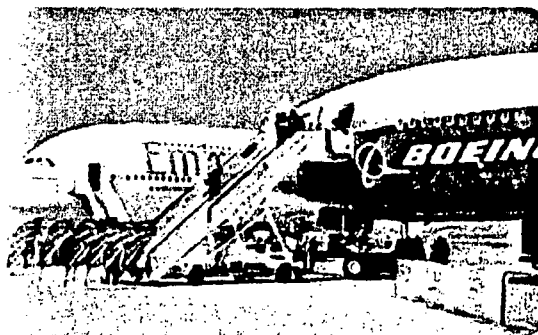
Currently, the hydroelectric power plant (below) supplies half the energy required by the industrial site, with the balance purchased from the local utility (which is also highly dependent on renewable hydro power in the area). After its expansion, the plant will supply 100% of the Brazilian manufacturing plant's energy requirements, guaranteeing stability and providing a layer of immunity from local power blackouts.



AMG Products and Climate Change

Many of AMG's highly engineered advanced material products have significant beneficial environmental impact. AMG specializes in producing additives that improve the strength, wear or other structural properties of the most widely used bulk metals in infrastructure, construction and transportation.

For example, by making steel stronger AMG's Ferovan® can significantly reduce steel tonnage requirements for civil projects, achieving a real reduction in raw materials, energy and GHG emissions that would be associated with that steel production. Similarly master alloys used in the production of lightweight materials for the aerospace and transportation industry can reduce weight and hence associated fuel usage. The new Airbus A380 and Boeing 787 (below) are prime examples of weight reduction in aerospace. Through considerations of full lifecycle emissions reductions associated with its products, and benchmarking emissions of its production processes versus traditionally available methods, AMG aims to be at the forefront of the use of materials technology for climate change abatement.



Environment – Emissions to Air GRI Aspect EN19, EN20

AMG's operations all benefit from stringent air emissions control technology. Particulates from furnaces, perhaps the major source of potential emissions, are controlled by baghouses, the best and most reliable technology for particulate emission control. In addition, acid gases such as SOx are controlled by desulfurization techniques.

Also, AMG uses minimal ozone depleting substances and initial studies suggest negligible emissions of these materials come from the Company's facilities. For future sustainable development reports AMG will collect and report data on its air emissions including SOx, NOx and particulate.

Environment – Emissions to Water

GRI Aspect EN21

Emissions to water generally result from the discharges of process waters, often after treatment in a water treatment plant. The disparate nature of AMG's manufacturing operations results in discharges from sites from purely sanitary usage, through sites with only non-contact cooling discharge, to plants with extensive waste water treatment operations and off-site discharge.

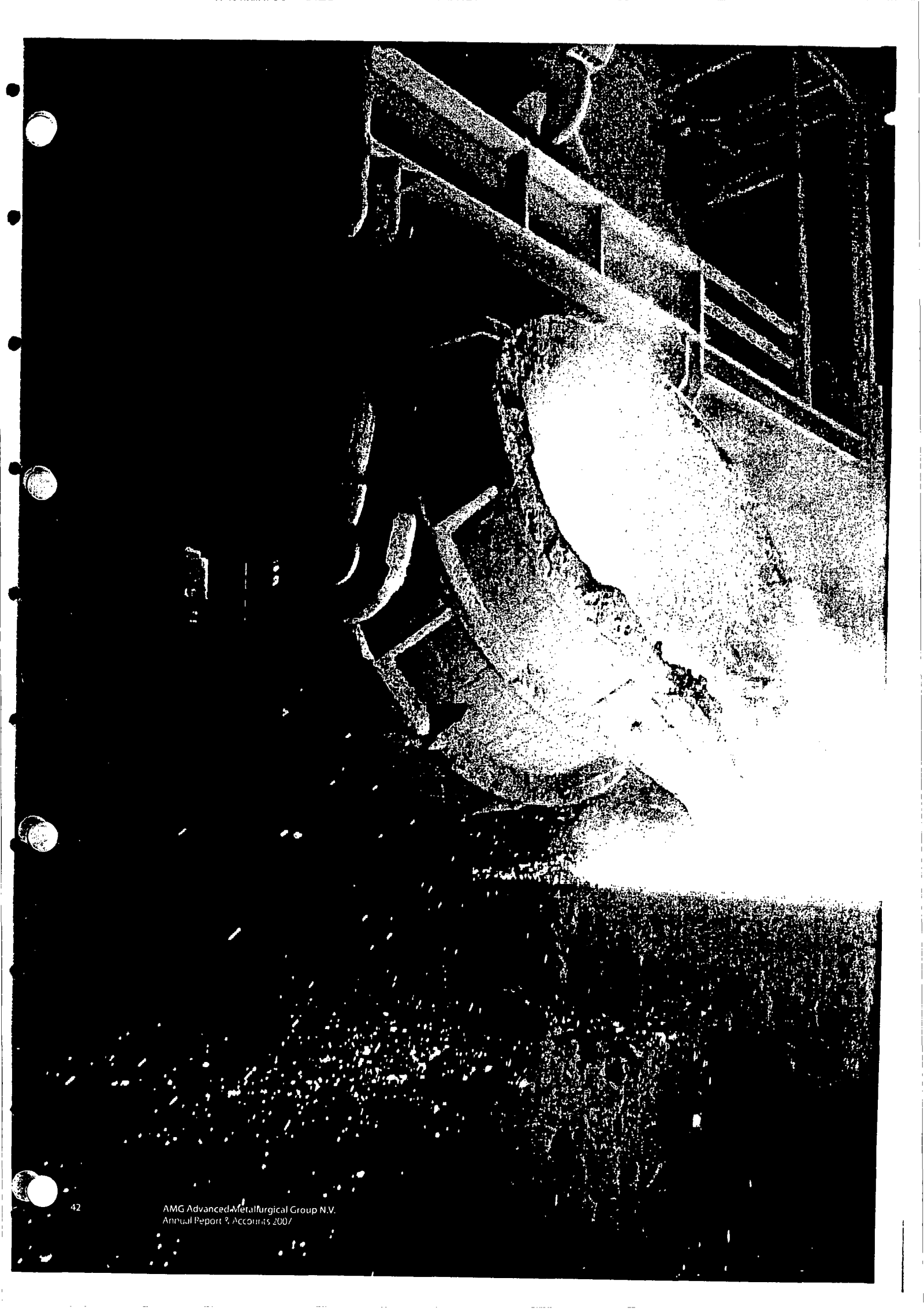
Strategies to reduce emissions include on-site water recycling, utilizing less input water or using water only in non-contact processes. AMG's sustainable development reports will include both the volume of water discharged from its facilities and the levels and types of impurities in that water.

Environment – Waste Production

GRI Aspect EN22

AMG's ultimate goal is to be a zero waste production company. The metals industry has a long history of recycling and there are large and established markets for recycling of steel and aluminum scrap and recovery of other precious and semi-precious metals.

AMG recognizes that most waste materials have an intrinsic value resulting either from chemical composition or physical properties. The key to converting materials from waste to product is finding an economically viable, environmentally responsible way to either recover valuable components of the wastes or make use of their physical properties. To that end AMG will continue to seek out either recycling methodologies or beneficial reuse opportunities for all materials currently disposed as waste. The Company will collect and publish data on its waste production and set goals based on this data to ultimately reach zero waste.





recycling

AMG's commitment to sustainable development includes recycling waste streams. Proprietary processes and technology enable AMG's use of waste streams both from its own and others' operations, increasing profitability while reducing environmental pollution.

Recycling at Cambridge, Ohio

The largest proven oil reserve outside Saudi Arabia is located in Alberta, Canada – 140,000 square kilometers of oil sands. The oil produced from this reserve starts out as solid bitumen which must be mined, then crushed and cleaned before it can be turned into synthetic crude. Various metal catalysts are used in this upgrading process. When the upgrading and refining process is completed, the spent (end of life) catalysts contain metals from the original catalyst (usually nickel and molybdenum) as well as vanadium (which is deposited on the catalyst from the bitumen). These spent catalysts must be disposed of as, in most cases, hazardous waste.

A core AMG business is to reclaim the metals from these spent catalyst waste streams using proprietary technologies developed by the Advanced Materials Division. After AMG processes the waste streams, it sells all of the end-products to the steel industry except for baghouse dust. Recycling at Cambridge is an example of how AMG uses technological know-how to reduce landfill and the need for primary mining.

AMG's economic model for oil refinery recycling operations is founded on a steady stream of 'tipping fees' which the oil field operator pays AMG for processing the materials. AMG also retains a percentage of the revenue from the sale of the recovered metals.

The Cambridge facility as well as AMG's Nuremberg plant also process oil-fired power plant residues and gasification ashes in much the same manner – recovering vanadium and nickel which would otherwise be landfilled.

Recycling in Brazil

One of AMG's primary goals is to minimize its own process waste streams. For years before AMG acquired its Brazilian operations, the operators of the tantalite mine deposited its tailings on the mine property. To reduce the environmental impact of this deposit, AMG's management evaluated the mine's mineralogy to find a use for the tailings, primarily feldspar. As a result, for the last four years upgraded and reprocessed feldspar has been sold to the ceramics and glass industries. This has resulted in an additional revenue stream for the facility and has significantly reduced the environmental footprint of the mine.

Similarly, the Brazil facility reprocesses the effluent from its own tantalum and niobium oxide production to produce boron salts. These salts are used in the production of aluminum master alloys. Once again, a focus on recycling maximizes value and reduces the Company's environmental footprint.

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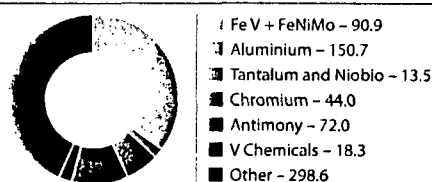
AMG had a very successful year in 2007 and this was reflected in both revenue and operating profit.

Organic growth in the Engineering Systems and Advanced Materials businesses as well as positive impacts from acquisitions in the Advanced Materials business helped to achieve these financial results.

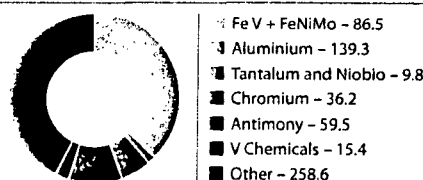
	Year ended 31 December	
	2006	2007
Revenue and expenses		
Advanced Materials revenue	605,358	688,039
Engineering Systems revenue	166,955	312,147
Timminco revenue	160,414	155,473
Total revenue	932,727	1,155,659
Cost of sales	782,122	954,229
Gross profit	150,605	201,430
Selling, general and administrative expenses	97,236	123,413
Restructuring and asset impairment expenses	19,341	(241)
Environmental expenses	11,044	2,107
Pension curtailment	(15,159)	-
Other (income) expense, net	60	(8,018)
Operating profit	38,083	84,169

AMG's revenue increased to \$1,155.7 million in the year ended 31 December 2007 from \$932.7 million in the year ended 31 December 2006, a 23.9% increase. Engineering Systems contributed by organically improving revenue by \$145.1 million year over year. Advanced Materials revenue grew organically by 10.6% and was also positively impacted by the inclusion of an acquisition in Germany which added 3.1% to the revenue increase.

2007 Advanced Materials Revenue \$m



2006 Advanced Materials Revenue \$m



Increased sales volume and higher prices for many of the Company's products allowed Advanced Materials to increase revenue to \$688.0 million in the year ended 31 December 2007 from \$605.3 million in the year ended 31 December 2006, a 13.7% increase. The success in the Advanced Materials Division was a result of increased sales volume or prices, and in several cases both, for many of the group's key products. Ferrovandium and ferronickel-molybdenum improved to \$90.9 million as a result of improved volumes in ferrovandium and improved pricing in ferronickel-molybdenum. Improved pricing and increasing volumes allowed aluminium master alloys revenues to improve by 8.2% to \$150.7 million and revenues for antimony trioxide to increase by 21% from \$59.5 million in 2006 to \$72.0 million in 2007. The Advanced Materials Division also benefited from the acquisition of Forschungsinstitut fuer Nichteisen-Metalle Freiberg GmbH ("FNE"), a state-of-the-art manufacturer of rotatable targets. FNE contributed \$18.5 million in revenue. FNE revenue was consolidated into Advanced Materials beginning 1 January 2007.

2007 Engineering Systems Revenue \$m



Remelting	84.6
Vacuum Heat Treatment	54.6
Solar Silicon melting	111.7
Vacuum induction melting	10.2
Vacuum precision casting	19.8
Turbine blade coating	21.9
Sintering	9.3

2006 Engineering Systems Revenue \$m



Remelting	66.0
Vacuum Heat Treatment	38.2
Solar Silicon melting	19.2
Vacuum induction melting	16.2
Vacuum precision casting	10.4
Turbine blade coating	8.7
Sintering	8.3

Engineering Systems continued to expand its business globally in 2007. Revenue for the Engineering Systems Division increased to \$312.1 million in the year ended 31 December 2007 from \$167.0 million in the year ended 31 December 2006, an 86.9% increase. The largest area of growth was solar silicon melting and crystallisation furnace systems sold primarily to the energy (solar-photovoltaic) industry. Sales of these furnaces grew by \$92.5 million in the year ended 31 December 2007 as compared to the year ended 31 December 2006. Sales of remelting furnaces that are sold primarily to the energy, titanium and specialty steel industries also increased by 28.2% to \$84.6 million in the year ended 31 December 2007 as result of the global focus on energy efficiency. The Division's revenue from its Own & Operate facilities increased to \$26.4 million in 2007 from \$21.6 million in 2006, a 22.2% increase. The increase in the Own & Operate revenue was predominantly the result of a full year of operations at the Company's third facility, which opened with limited production in April 2006. In addition to record revenue in 2007, the Engineering Systems Division had a record year-end order backlog of \$252 million at 31 December 2007, an increase of 142.3% versus the backlog at 31 December 2006.

Revenue for Timminco decreased to \$155.5 million in the year ended 31 December 2007 from \$160.4 million in the year ended 31 December 2006, a 3.1% decline. This decline was driven by the magnesium product line. Revenue from sales of silicon products increased by 1.5% due to an increase in the average selling price per tonne which was offset by a decline in volume sold. The decline in volume sold related to lower volumes manufactured as a result of production problems.

AMG's gross profit increased to \$201.4 million in the year ended 31 December 2007 from \$150.6 million in the year ended 31 December 2006, a 33.7% increase. The increase in gross profit was primarily due to increased demand within the Engineering Services unit which has allowed the Company to expand their business and maintain excellent margins. Advanced Materials gross profit improved primarily due to revenue growth and the consolidation of FNE, which added \$5.8 million in gross profit to the Advanced Materials unit.

2007 Selling, General and Administrative Expenses \$m



Compensation and Benefits	68.7
Professional Fees	18.9
Travel	5.9
R & D	6.2
Other	23.7

2006 Selling, General and Administrative Expenses \$m



Compensation and Benefits	52.7
Professional Fees	15.6
Travel	4.5
R & D	4.0
Other	20.4

Selling, general and administrative costs increased to \$123.4 million in the year ended 31 December 2007 as compared to \$97.2 million in the year ended 31 December 2006. As a percentage of sales, SG&A costs were 10.7% of sales in 2007 as compared to 10.4% of sales in 2006. The growth in costs primarily related to the growing infrastructure of the Company that is now required 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. Compensation and benefits increased to \$68.7 million from \$52.7 million due to three primary reasons. The largest individual element of this increase was stock based compensation expense, a non-cash expense, recognized for options granted in the amount of \$4.2 million. The second largest component of the increase related to the supplemental executive retirement plan that was initiated in 2007 for members of the Company's management. This new plan accounted for \$4.0 million of additional expense in the year ended 31 December 2007, with \$2.2 million of that cost related to service rendered prior to 2007 ("prior service cost"). Finally, increased headcount in the Engineering Systems group, due to a near doubling of revenues, increased the expense related to compensation and benefits. In addition to compensation and benefits, the Company also incurred expenses for professional services of \$18.9 million and \$15.6 million in the periods ended

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31 December 2007 and 2006, respectively. The professional services include audit fees, legal fees, directors' fees as well as consultants used in all operations. Research and development expense increased by 55% to \$6.2 million in the year ended 31 December 2007 as compared to the year ended 31 December 2006 primarily due to the acquisition of FNE. In addition to the production of rotatable targets for large-area coatings, FNE operates a research institute that is critical to developing new coating applications. All other SG&A expenses, such as insurance, occupancy, communication and bank fees increased to \$23.7 million in the year ended 31 December 2007 from \$20.4 million in the year ended 31 December 2006.

Other income for the year ended 31 December 2007 relates primarily to the two acquisitions completed during the year: FNE and the purchase of land and buildings in Berlin by the Engineering Systems Division. The Company purchased the Berlin facility to further expand its capacity in Engineering Systems. Each of these acquisitions generated negative goodwill ie the company paid less than the fair value of the assets acquired, which was recorded as income in the year ended 2007. The FNE acquisition generated income of \$2.2 million while the Berlin acquisition generated income of \$5.1 million.

Operating Income

AMG's operating income increased to \$84.2 million in the period ended 31 December 2007 from \$38.1 million in the year ended 31 December 2006, a 121% increase due primarily to improved gross profit, particularly in the Engineering Systems unit, and significantly lower environmental and restructuring expenses in 2007 when compared to 2006. Operating income as a percentage of revenue increased to 7.3% in the year ended 31 December 2007 as compared to 4.1% in the year ended 31 December 2006.

The table below sets forth AMG's net finance expense for the periods ended 31 December 2007 and 2006. 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. This refinancing also generated a prepayment expense of \$34.7 million. Interest income increased as a result of the increased cash position of the Company.

	Period ended 31 December (Amounts in \$ thousands)	
	2006	2007
Interest expense	36,559	28,023
Interest income	(3,102)	(6,954)
Foreign exchange income	(442)	(3,591)
Prepayment of debt	-	34,668
Finance expense, net	33,015	52,146

Income tax provision increased to US\$20.7 million, or 71.9% of pre-tax income, for the year ended 31 December 2007 from US\$8.3 million, or 312% of pre-tax income, for the period ended 31 December 2006. The increase in income tax provision is primarily a result of the Company's increased profit before taxes. The effective tax rate for 2007 was significantly higher than the normalized effective tax rate of 28% because the Company was unable to recognise a financial accounting tax benefit for the large debt prepayment expense of \$34.7 million that was recorded in the United States. This treatment was adopted because of the Company's historical net operating loss position of its U.S. subsidiaries.

Net Profit

The Company recorded a net profit attributable to shareholders of US\$11.7 million in the year ended 31 December 2007 as compared with a net income attributable to shareholders of US\$4.5 million in the year ended 31 December 2006. This improved performance is a result of the factors discussed above.

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 31 December 2007, the Company had US\$172.6 million in cash and cash equivalents, including US\$74.7 million in advance payments from customers, as compared with US\$54.6 million as at 31 December 2006, including US\$29.7 million in advance payments from customers. The Company's liquidity was greatly improved in the year ended 31 December 2007 as compared to 31 December 2006 as summarised below:

	2006	2007
Non-current loans and borrowings	186,107	115,726
Current loans and borrowings	90,654	25,056
Total debt	276,761	140,782
Cash	54,610	172,558
Net debt	222,151	(31,766)

The improvement of the liquidity was the result of improved operating cash flows as well as the financing activities that the Company completed during the year. The table below summarises the Company's net cash provided by or used in its operating activities, investing activities and financing activities for the years ended 31 December 2007 and 2006.

	2006	2007
Net cash provided by (used in):		
Operating activities	23,353	74,500
Investing activities	(18,921)	(92,859)
Financing activities	14,472	123,425

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Cash Flows

Net cash provided by operating activities increased to US\$74.5 million in the year ended 31 December 2006 from US\$23.4 million in the year ended 31 December 2005, a US\$51.1 million increase. The increase was primarily due to an increase in net income, an improvement in working capital and a decline in environmental expenditures in the year ended 31 December 2007.

Net cash used in investing activities increased to US\$92.9 million in the year ended 31 December 2007 from US\$38.9 million in the year ended 31 December 2006, a US\$54.0 million increase. The increase was primarily caused by an increase in capital expenditures to US\$58.3 million in the year ended 31 December 2007 from US\$24.3 million in the year ended 31 December 2006. Timminco raised a significant amount of cash through share offerings in the year ended 31 December 2007 and also invested US\$15.3 million in short-term investments. The majority of the Company's capital expenditures were for projects designed to expand or materially upgrade the Company's production capabilities. Expenditures for major expansion projects in the year ended 31 December 2007 included:

- \$22.6 million for new equipment and expansion of solar-grade silicon metal production
- \$5.5 million for land, building and machinery at the Company's new Own & Operate Facility in Mexico
- \$2.9 million for engineering for the planned tripling of the Company's spent catalyst roasting capacity
- \$2.0 million for a furnace overhaul and expansion in Cambridge, Ohio.
- \$1.8 million for the expansion of the hydropower plant that services the Company's operation in Brazil
- \$1.3 million for capacity expansion for the Company's Own & Operate Facilities in the United States

The remaining capital expenditures related to other smaller expansion projects as well as maintenance capital of \$10.2 million

Cash provided by financing activities was US\$123.4 million in the year ended 31 December 2007 as compared to US\$14.5 million in the year ended 31 December 2006. Large cash inflows were generated in the year ended 31 December 2007 by the Company's initial public offering and Timminco's share offering which together generated US\$334.1 million in net proceeds. The Company also completed a refinancing of debt that generated US\$96.5 million in net proceeds. These proceeds were used primarily to pay-down existing high yield debt balances.

In summary, AMG's balance sheet and cash flows are strong and the Company is poised to take advantage of acquisition or expansion opportunities that will advance the strategic plans of the Company and enhance shareholder value.

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Consolidated Income Statement

As at 31 December 2007

In thousands of US Dollars	Note	2007	2006
Continuing operations			
Revenue	6	1,155,659	932,727
Cost of sales		954,229	782,122
Gross profit		201,430	150,605
Selling, general and administrative expenses		123,413	97,236
Restructuring and asset impairment expenses	26	(241)	19,341
Environmental expense	26	2,107	11,044
Other expenses		1,855	1,324
Pension curtailment gain	24	—	(15,159)
Other income	7	(9,873)	(1,264)
Operating profit	4	84,169	38,083
Loss on debt extinguishment	21	34,668	—
Interest expense		28,023	36,559
Interest income		(6,954)	(3,102)
Foreign exchange gain		(3,591)	(442)
Net finance costs	9	52,146	33,015
Share of loss of associates	13	(3,213)	(2,372)
Profit before income tax		28,810	2,696
Goodwill adjustment relating to deferred tax asset	10	1,386	—
Income tax expense	10	19,322	8,383
Profit for the year		8,102	(5,687)
Attributable to:			
Shareholders of the Company		11,704	4,507
Minority interests		(3,602)	(10,194)
		8,102	(5,687)
Earnings per share			
Basic earnings per share	20	0.44	0.17
Diluted earnings per share	20	0.43	0.17

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

Consolidated Balance Sheet

As at 31 December 2007

In thousands of US Dollars	Note	2007	2006
Assets			
Property, plant and equipment	11	155,763	101,256
Intangible assets	12	50,291	44,898
Investments in associates	13	15,145	13,303
Derivative financial instruments	31	194	-
Deferred tax assets	10	34,537	21,731
Restricted cash	17	14,582	-
Notes receivable	35	7,068	925
Other assets		5,087	4,056
Total non-current assets		282,667	186,169
Inventories	14	186,410	159,651
Trade and other receivables	15	187,243	140,976
Derivative financial instruments	31	3,582	2,448
Prepayments		48,754	26,784
Short-term investments	16	15,333	-
Cash and cash equivalents	18	172,558	54,610
Total current assets		613,880	384,469
Total assets		896,547	570,638
Equity			
Issued capital		722	59
Share premium		392,304	129,986
Other reserves		(9,923)	(15,313)
Retained earnings (deficit)		(137,439)	(148,840)
Equity attributable to shareholders of the Company		245,664	(34,108)
Minority interests		64,133	10,367
Total equity	19	309,797	(23,741)
Liabilities			
Loans and borrowings	21	115,726	185,386
Related party debt	22	-	721
Employee benefits	24	102,809	94,245
Provisions	26	12,011	9,986
Government grants	27	8,585	-
Other liabilities	28	9,087	5,426
Derivative financial instruments	31	77	-
Deferred tax liabilities	10	32,112	12,989
Total non-current liabilities		280,407	308,755
Loans and borrowings	21	1,102	22,659
Short-term bank debt	23	16,202	53,180
Related party debt	22	7,752	14,815
Government grants	27	7,927	-
Trade and other payables	29	126,827	93,841
Other liabilities	28	42,356	42,753
Derivative financial instruments	31	4,994	1,303
Advance payments		74,731	29,739
Current taxes payable	10	11,496	13,126
Provisions	26	12,956	14,208
Total current liabilities		306,343	285,624
Total liabilities		586,750	594,379
Total equity and liabilities		896,547	570,638

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 19)	Share premium	Other reserves (Note 19)	Retained deficit	Total	Minority interests	Total equity
Balance at 1 January 2006	-	129,131	(3,593)	(153,347)	(27,809)	18,984	(8,825)
Foreign currency translation	-	-	2,952	-	2,952	604	3,556
Loss on cash flow hedges, net of tax	-	-	(372)	-	(372)	-	(372)
Net income recognized directly in equity	-	-	2,580	-	2,580	604	3,184
Profit (loss) for the year	-	-	-	4,507	4,507	(10,194)	(5,687)
Total recognized income and expense for the year	-	-	2,580	4,507	7,087	(9,590)	(2,503)
Issuance of shares	59	-	-	-	59	-	59
Convertible debt	-	-	-	-	-	1,453	1,453
Equity-settled share-based payments	-	855	-	-	855	715	1,570
Warrant expiration	-	-	-	-	-	(1,195)	(1,195)
Acquisition of Treasury Shares (1)	-	-	(14,300)	-	(14,300)	-	(14,300)
Balance at 31 December 2006	59	129,986	(15,313)	(148,840)	(34,108)	10,367	(23,741)
Balance at 1 January 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
Dilution due to issuance of shares in 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 31 December 2007	722	392,304	(9,923)	(137,439)	245,664	64,133	309,797

(1) Note 19

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

Consolidated Statement of Cash Flows

As at 31 December 2007

In thousands of US Dollars	Note	2007	2006
Cash flows from operating activities			
Profit (loss) for the period		8,102	(5,687)
Adjustments to reconcile profit to net cash flows:			
Non-cash:			
Depreciation and amortization	11, 12	18,663	18,529
Pension curtailment gain	24	-	(15,159)
Restructuring expense and impairment losses	12, 26	(241)	19,341
Environmental expense	26	2,107	11,844
Net finance costs	9	52,146	33,015
Share of loss profit of associates	13	3,213	2,372
Loss on sale or disposal of property, plant and equipment	11	93	2,617
Equity-settled share-based payment transactions	25	4,207	386
Income tax expense	10	20,708	8,383
Working capital adjustments			
Change in inventories		(11,545)	(6,359)
Change in trade and other receivables		(50,099)	(12,355)
Change in prepayments		(10,938)	2,993
Change in trade payables, provisions, and other liabilities		67,280	(474)
Change in government grants	27	15,503	-
Other		(12,952)	(1,644)
Interest paid	9	(26,792)	(28,650)
Interest received	9	13,300	-
Income tax paid	10	(18,255)	(5,799)
Net cash flows from operating activities		74,500	23,353
Cash flows used in investing activities			
Proceeds from sale of property, plant and equipment	11	768	420
Acquisition of associates	5	(9,162)	(4,003)
Acquisition of property, plant and equipment and intangibles	11, 12	(58,259)	(24,292)
Related party loans	22	(4,475)	(11,046)
Repayment of loan from related party		4,456	-
Purchase of short-term investments		(15,333)	-
Change in restricted cash	17	(14,054)	-
Other		3,200	-
Net cash flows used in investing activities		(92,859)	(38,921)
Cash flows from financing activities			
Proceeds from issuance of debt	21	105,316	26,619
Payment of debt transaction costs	21	(8,830)	(207)
Prepayment penalties related to refinancing	21	(23,186)	-
Repayment of borrowings	21, 22, 23	(284,018)	(11,878)
Proceeds from the issuance of shares	19	342,607	59
Payment of transaction costs related to issuance of shares	19	(8,526)	-
Other		62	(121)
Net cash flows from financing activities		123,425	14,472
Net increase (decrease) in cash and cash equivalents		105,066	(1,096)
Cash and cash equivalents at 1 January		54,610	50,317
Effect of exchange rate fluctuations on cash held		12,882	5,389
Cash and cash equivalents at 31 December	18	172,558	54,610

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

Notes to the Consolidated Financial Statements

1. Reporting entity

The consolidated financial statements of AMG Advanced Metallurgical Group N.V. (herein referred to as 'the Company', 'AMG N.V.' or 'AMG') for the year ended 31 December 2007 were authorised for issuance in accordance with a resolution of the Supervisory Board on 27 March 2008.

AMG is domiciled in the Netherlands. The address of the Company's registered office is Prins Bernhardplein 200, 1097 J3 Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2007 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 21 November 2006 by Safeguard International Fund ('Safeguard') and did not have an 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 19 for additional information.

AMG is organized under three operating segments: Advanced Materials, Timminco and Engineering Systems. The subsidiaries that make up these three operating segments are primarily located in Europe, North America and South America. The Advanced Materials operating 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' operating 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 operating segment produces: magnesium alloys that provide corrosion protection and weight reduction to durable and leisure goods and construction; and silicon metal, including solar grade silicon, which improves conductivity, provides corrosion resistance and increases harness for the electronic, solar-photovoltaic, chemical and aluminum industries.

These financial statements represent the consolidated financial statements of the Group. These consolidated financial statements as of 31 December 2007 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 interest method was applied for preparation of the 2007 consolidated financial statements. Accordingly, these principles have also been applied for the 2006 comparative consolidated financial information.

The parent company income statement is being prepared considering part 9, Book 2, article 402 of the Netherlands Civil Code. In order to present our revenue consistently among the group, the Company made a reclassification of certain costs between revenue and costs of goods sold recorded at our Timminco subsidiary. Consequently, the prior year comparatives have been adjusted for this change. Certain lines in the prior year comparative information in the consolidated financial statements have also been restated to reflect reclassifications of which we feel provide a more accurate presentation of our results.

Subsidiaries included in the consolidated financial statements of the Company are as follows:

Name	Country of incorporation	% held (directly or indirectly) by Company 31 December 2007	% held (directly or indirectly) by Company 31 December 2006
ABS Apparate und Behälterbau GmbH	Germany	24.96	19.9
ALD Holcroft Vacuum Technologies Co. Inc.	United States	50	50
ALD Lindgren Inc.	Canada	100	100
ALD Industrie- und Montagepark Staaken GmbH	Germany	51	-
ALD Own and Operate GmbH	Germany	100	100
ALD 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 Tennicos S.A.	Mexico	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 Coating Technologies GmbH	Germany	100	100
AMG DLC Coating GmbH	Germany	50	50
Aurora Partnership	United States	50.54	54.45
Bécanour Silicon Inc.	Canada	50.54	54.45
Benda-Lutz-Alpoco Sp.z o.o.	Poland	51	51
Bostlan	Spain	25	25
Castle Crushing Limited	United Kingdom	100	100
Companhia Industrial Fluminense	Brazil	100	100
Ester-Technologie GmbH	Germany	50.2	50
Ester-Separations GmbH	Germany	30.1	-
FNE Forschungsinstitut für Nichtisen-Metalle Freiberg GmbH	Germany	100	24.9
Fremat GmbH & Co KG	Germany	100	24.9
Fundo Holdings AS*	Norway	50.54	54.45
Fundo Wheels A.S.	Norway	50.54	54.45
Zentrum für Material- und Umwelttechnik GmbH	Germany	100	24.9
Furnaces Nuclear Applications Grenoble S.A.	France	50	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
Gt Alloys	Germany	100	100
Heidenreich and Harbeck AG	Germany	19.01	-
H.M.I. Limited	United Kingdom	100	100
Industrial Adhesives Limited	Canada	50.54	54.45
Korin Grundstücksgesellschaft GmbH & Co. Projekt 30 KG	Germany	94.9	94.9
London & Scandinavian Metallurgical Co Limited	United Kingdom	100	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 Holdings Corporation	United States	100	100
Metallurg Holdings Inc.	United States	100	100
Metallurg, Inc.	United States	100	100
Metallurg Mexico	Mexico	100	100
Metallurg Servicios	Mexico	100	100
Metallurg Vanadium Corporation	United States	100	100
M. & A. Powders Limited (dormant)	United Kingdom	100	100
NorWheels AS*	Norway	50.54	54.45
Portus Zwoelfte GmbH	Germany	100	-
Produits Chimiques de Lucette S.A	France	100	100
S.A. Vickers Limited (dormant)	United Kingdom	100	100
Steel Alloy Metallurgical Corporation	United States	100	100

Notes to the Consolidated Financial Statements

Name	Country of incorporation	% held (directly or indirectly) by Company 31 December 2007	% held (directly or indirectly) by Company 31 December 2006
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 S.A.	Belgium	100	100
Technologie-und Gründerzentrum GmbH	Germany	2.5	2.5
The Aluminium Powder Company Limited	United Kingdom	100	100
Timminco Adhesives Corporation	United States	50.54	54.45
Timminco Colorado Corporation	United States	50.54	54.45
Timminco Corporation	United States	50.54	54.45
Timminco de Mexico S.A. de CV	Mexico	50.54	54.45
Timminco Holdings Corporation	United States	50.54	54.45
Timminco Limited	Canada	50.54	54.45
Timminco Properties Inc.	United States	50.54	54.45
Timminco Pty Limited	Australia	50.54	54.45
Timminco S.A.	Switzerland	50.54	54.45
Timminco Technologies Corporation	United States	50.54	54.45
VACUHEAT GmbH	Germany	100	100
VACUHEAT Verwaltungsgesellschaft mbH	Germany	100	100

* Fundo Holdings AS and Nor-Wheels AS are 47.1% owned by Timminco, for which the Company owns 50.54%. Therefore, the Company indirectly holds 23.8% of these companies.

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 31 December 2007 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 31 December 2007 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, which were measured at fair value.

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 – utilisation of tax losses
- Note 12 – measurement of the recoverable amounts of cash-generating units
- Note 24 – measurement of defined benefit obligations
- Note 25 – measurement of share-based payments
- Note 26 – provisions
- Note 27 – government grants
- Note 31 – 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 31 December 2007 was \$264,392 (2006: \$120,139).

Utilisation 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 utilised. 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 31 December 2007 was \$17,370 (2006: \$10,166). There are significant unrecognized tax losses as described in more detail in note 10.

Measurement of the recoverable amounts of intangible 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 31 December 2007, management deemed these assets to have a remaining life of 10 years and began amortization of these patents. In the year ended 31 December 2006, the Company tested the recoverability of these assets, which had a book value of \$3,991, which were included in the balance sheet. They were deemed to be recoverable.

(iii) 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, Timminco and ALD, 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 31 December 2007 was \$39,980 (2006: \$36,116).

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 31 December 2007 is \$102,809 (2006: \$94,245).

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 25.

Provisions

Provisions have been recorded with respect to environmental, restructuring 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 or restructuring as the execution of plans may require more or less time than anticipated. As at 31 December 2007, the provisions balance was \$24,967 (2006: \$24,196).

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 judgment 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 consolidated financial statements of the Company include the accounts of all entities when a direct or indirect controlling interest exists through voting rights or qualifying variable interests 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 that are recognized in assets, 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 equity method, whereby an investment is recorded at

3. Significant accounting policies (continued)

a value equal to the difference between the consideration received and the book value of the Company's share of the net assets acquired. The minority interests are disclosed separately in the consolidated income statements 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 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. 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 13 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 Dollar in 1,000's except for share amounts and where otherwise indicated.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Company 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 1 January 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 of trade and other receivables, cash and cash equivalents, short-term investments, loans and borrowings, related party debt, short-term bank debt and trade and other payables. The Company does not have any non-derivative financial instruments which are classified as held-to-maturity investments, available-for-sale financial assets, or financial assets at fair value through profit or loss.

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. 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.

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.

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 or a joint venture. 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.

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 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 is 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.

3. Significant accounting policies (continued)

(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.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 labour, 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.

(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.

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

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

Certain subsidiaries have deferred charges representing direct costs for costs incurred for major overhauls of furnaces. These charges are amortized from 60 to 84 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.

(iv) Exploration for and evaluation of mineral resources

A subsidiary of the Company recognizes the following expenditures as exploration and evaluation assets:

- (a) topographical, geological, geochemical and geophysical studies;
- (b) exploratory drilling and soil removal;
- (c) trenching;
- (d) sampling; and
- (e) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

These amounts are currently not significant. As at 31 December 2007 and 2006, there was \$882 and \$884 respectively, included in non-current assets in the consolidated balance sheet. These costs are amortized over the estimated useful life of the mine on a

systematic basis. In 2007, approximately \$101 of amortization was recorded. The mine was not in operation throughout most of 2006 and therefore, there was no amortization recorded.

(f) Business combinations and goodwill

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

Acquisitions on or after 1 January 2005

For acquisitions on or after 1 January 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 values of identifiable assets are 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, fixtures and fittings 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 or 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 manufactured inventories and work in progress, cost includes 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 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.

3. Significant accounting policies (continued)

(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 had 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 utilised. 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 an 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. In 2006, the Company underwent a significant restructuring plan and made significant changes to the primary defined benefit plans at LSM in the UK and to the largest defined benefit plan in the US. See note 24 for more details.

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. 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 1 January 2005, the date of transition to IFRS, were recognized. In respect of actuarial gains and losses that arise subsequent to 1 January 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 24).

(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 share-based compensation plans, which are described in note 25.

The cost of equity-settled transactions, related to these share-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 25.

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 20).

(I) 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.

3. Significant accounting policies (continued)

(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.

(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 trade payables, 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 amounts due from customers for contract work. If the net amount after deduction of progress payments received is negative, the

difference is recognized as a liability and included in amounts due to customers for contract work. 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 and interest recognized on loans to related parties. 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, unwinding of 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 attaching 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 utilised 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 utilised

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 realized 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 standards

The following new standards, amendments to standards and interpretations are effective for the year ended 31 December 2007. If applicable, these standards and interpretations have been applied in preparing these consolidated financial statements:

- IFRS 7 "Financial Instruments: Disclosures" and the Amendment to IAS 1 "Presentation of Financial Statements: Capital Disclosures" require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1 required additional disclosures with respect to Company's financial instruments, capital management and share capital.
- 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 that 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

Notes to the Consolidated Financial Statements

3. Significant accounting policies (continued)

reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

- IFRIC 8 "Scope of IFRS 2 Share-based Payment" 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.
- IFRIC 10 "Interim Financial Reporting and Impairment" prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Adoption of IFRIC 10 did not have any impact on the consolidated financial statements.
- 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.

(u) Future changes in accounting policies

The following new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007. They may, however, be implemented in future years.

- 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 1 January 2009. This is not expected to have an 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 is not expected to have any impact on the consolidated financial statements.
- 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 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 Company is in the process of evaluating the potential impact of this interpretation.

4. Segment reporting

For management purposes, the Company is organized under three separate operating segments: Advanced Materials, Timminco, and Engineering Systems. Advanced Materials produces advanced materials and is comprised of five operating units with major production facilities in the UK, US, Germany, Brazil, and France. Timminco's operations are made up of one reportable operating unit primarily in North America. The Engineering Systems Unit is also made up of one reportable operating unit with major production facilities in Germany and the US.

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 unit manufactures and sells high-quality specialty metals, alloys and metallic chemicals which are essential to the production of high-performance aluminium 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.

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

Engineering Systems – This unit is the leading global supplier of processes and services in the field of vacuum process technology. Core specialties of the Engineering Systems unit are the development of processes and the design of plants, which are made to concept by partners in the supplier industry. This unit 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.

AMG Headquarters' costs and assets are allocated 60% to Advanced Materials and 40% to Engineering Systems in 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 2007	Advanced Materials	Timminco	Engineering Systems	Other and Eliminations	Total
Revenue					
Revenue from external customers	688,039	155,473	312,147	-	1,155,659
Intersegment revenue	-	-	284	(284)	-
Segment Result					
Operating profit	35,877	(13,935)	62,227	-	84,169
Interest income	4,947	-	8,068	(6,061)	6,954
Interest expense	24,129	2,511	7,444	(6,061)	28,023
Share of (loss) profit of associates	323	(3,554)	18	-	(3,213)
Profit (loss) before income tax	(16,215)	(17,528)	62,553	-	28,810
Goodwill adjustment relating to deferred tax asset	-	1,386	-	-	1,386
Income tax expense (benefit)	4,923	(4,981)	19,380	-	19,322
Profit for period	(21,138)	(13,933)	43,173	-	8,102
Balance Sheet					
Segment assets	532,236	178,343	403,556	(232,733)	881,402
Investment in associates	1,852	6,801	6,492	-	15,145
Total assets	534,088	185,144	410,048	(232,733)	896,547
Segment liabilities	245,795	44,121	401,791	(232,733)	458,974
Employee benefits	56,426	17,876	28,507	-	102,809
Provisions	7,607	3,792	13,568	-	24,967
Total liabilities	309,828	65,789	443,866	(232,733)	586,750
Other Information					
Capital expenditures - tangible assets	16,441	27,312	12,798	-	56,551
Capital expenditures - intangible assets	355	1,103	605	-	2,063
Intangible assets acquired	-	-	454	-	454
Depreciation and amortization	11,112	3,114	4,407	-	18,663

Year Ended 31 December 2006	Advanced Materials	Timminco	Engineering Systems	Other and Eliminations	Total
Revenue					
Revenue from external customers	605,358	160,414	166,955	-	932,727
Intersegment revenue	-	-	-	-	-
Segment Result					
Operating profit	33,879	(20,382)	24,586	-	38,083
Interest income	1,707	-	2,443	(1,048)	3,102
Interest expense	31,108	3,433	3,066	(1,048)	36,559
Share of (loss) profit of associates	186	(2,702)	144	-	(2,372)
Profit (loss) before income tax	4,668	(25,367)	23,395	-	2,696
Income tax expense (benefit)	356	(1,399)	8,926	-	8,383
Profit for period	3,812	(23,968)	14,469	-	(5,687)
Balance Sheet					
Segment assets	321,650	86,077	163,248	(13,640)	557,335
Investment in associates	3,478	7,872	1,953	-	13,303
Total assets	325,128	93,949	165,201	(13,640)	570,638
Segment liabilities	339,582	58,301	91,695	(13,640)	475,938
Employee benefits	53,363	16,557	24,325	-	94,245
Provisions	12,290	1,148	10,758	-	24,196
Total liabilities	405,235	76,006	126,778	(13,640)	594,379
Other Information					
Capital expenditures - tangible assets	12,462	3,787	6,665	-	22,914
Capital expenditures - intangible assets	-	-	1,378	-	1,378
Depreciation and amortization	10,160	3,767	4,602	-	18,529

Notes to the Consolidated Financial Statements

4. Segment reporting (continued)

Geographical information

Geographical information for the Company is provided below:

	Year ended 31 December 2007		Year ended 31 December 2006	
	Revenues	Non-current assets	Revenues	Non-current assets
Germany	202,353	50,856	147,629	33,873
US	351,847	38,994	311,450	38,830
Canada	37,488	67,139	36,134	32,927
UK	53,034	16,617	43,595	18,566
Brazil	33,989	12,364	27,155	10,377
France	50,700	16,954	54,084	14,474
Norway	86,539	-	24,548	-
Italy	37,665	-	27,176	-
China	67,787	-	24,735	-
Japan	40,813	1	50,330	3
Mexico	10,613	6,462	12,163	-
Russia	22,151	-	21,354	-
Austria	11,340	-	22,848	-
Belgium	18,796	63	15,619	49
Other countries	130,544	1,569	113,907	1,111
Total	1,155,659	211,019	932,727	150,210

5. Acquisitions of associates

Purchase of land in Berlin by ALD

By a share purchase agreement dated 13 June 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 13 June 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 1 January 2013 and increasing by an additional €10,000 per annum every five years thereafter. The hereditary building right expires on 31 December 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 31 December 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 31 December 2007, 84 permanent jobs have been created at the site and ALD IMP has recognised \$649 of government grant income. The land purchase created a release of \$5,100 that was recognised in connection with this acquisition (note 7). See note 27 for further disclosure of government grants.

Acquisition of FNE

On 3 December 2007, GfE completed the acquisition of 100% of the shares of FNE Forschungsinstitut 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 7 June 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 1 January 2007 through 1 January 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 1 January 2007. This call option was exercised on 3 December 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. Badwill in the amount of \$164 and \$2,162 was recognised on this transaction in the years ended 31 December 2006 and 2007, respectively (note 7).

The fair value of identifiable assets and liabilities at the date of consolidation 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)	
Badwill 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

From the date of consolidation, FNE has contributed \$2,962 to the profit of the Company.

Acquisition of Heidenreich and Harbeck AG

In 2007, ALD GmbH made an investment of approximately \$3,624 to purchase 19.01% ownership in Heidenreich and Harbeck AG ('H&H') from its current ownership. As of 31 December 2007, this has been accounted for as an equity investment.

Notes to the Consolidated Financial Statements

5. Acquisitions of associates (continued)

Acquisition of ABS

On 9 October 2006, ALD GmbH made an investment of approximately \$1,420 to purchase 19.9% ownership in ABS Apparate und Behälterbau 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 31 December 2007 and 2006, this has been accounted for as an equity investment.

Acquisition of Fundo Wheels

Fundo Wheels AS ("Fundo"), located in Hoyanger, Norway, is an original equipment manufacturer of cast aluminium wheels for high-end European car manufacturers. On 22 March 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 Hoyanger (the "Community").

Under the agreements from the purchase, Nor-Wheels holds a call option to purchase the Community's Fundo shares no sooner than 1 January 2008, on the satisfaction of certain conditions. Beginning 1 January 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 1 January 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 31 December 2007, Timminco has a 47.1% share in Fundo and the Community owns approximately 52.9%.

6. Revenue

	Consolidated	
	2007	2006
Sales of goods	1,155,623	932,696
Rendering of services (commissions)	36	31
Total revenues	1,155,659	932,727

For construction contracts, the following has been recognized using the POC method:

	2007	2006
Contract revenue recognized as revenue in the period	264,392	120,139
Payments received	210,384	102,567
Gross amount due from customers for contract work	54,008	17,572

7. Other income

	Note	2007	2006
Release of unused provisions		865	232
Negative goodwill	i	7,262	164
Rental income	iii	401	-
Grant income	iv	469	-
Other miscellaneous income	ii	876	868
		9,873	1,264

In 2007, Other income of \$9,873 consists of: (i) negative goodwill of \$7,262 associated with the acquisition of Berlin and FNE (see note 5); (ii) other miscellaneous income of \$876 which included scrap sales (\$67) and other legal and bankruptcy settlements (\$124); (iii) rental income of \$401 at two subsidiaries which rent out unused space in their facilities and (iv) grant income of \$469 associated with the Berlin acquisition.

In 2006, Other income of \$1,264 consisted of: (i) negative goodwill of \$164 associated with the acquisition of FNE (see note 5); (ii) other miscellaneous income of \$868 which included payroll processing for other companies and license income earned of \$443.

8. Personnel expenses

	Note	2007	2006
Wages and salaries		137,253	105,236
Contributions to defined contribution plans		3,439	4,721
Expenses related to defined benefit plans	24	9,622	8,087
Gain from curtailment of pension	24	-	(15,159)
Social security and other benefits		25,969	17,715
Share-based payment compensation	25	4,207	386
		180,490	120,986
Included in the following lines of the consolidated income statement:			
Cost of goods sold		112,160	83,486
Selling, general and administrative costs	25	68,330	52,659
Pension curtailment gain		-	(15,159)
		180,490	120,986

9. Finance income and expense

Recognized in profit or loss	2007	2006
Interest income on bank deposits	6,340	1,519
Interest income on related party loans	614	1,583
Finance income	6,954	3,102
Foreign exchange income	3,591	442
Amortization of loan issuance costs	(1,730)	(2,383)
Amortization of rate cap instrument	(60)	(116)
Finance lease expense	(20)	(2)
Accretion on convertible loan	(769)	-
Interest expense on loans and borrowings	(25,444)	(34,058)
Finance expense	(28,023)	(36,559)
Loss on debt extinguishment	(34,668)	-
Net finance income and expense	(52,416)	(33,015)

Notes to the Consolidated Financial Statements

10. Income tax

Significant components of income tax expense for the years ended:

	2007	2006
Current tax expense		
Current period	14,177	11,860
Adjustment for prior periods	(3)	(33)
Total current taxation charges for the year	14,174	11,827
Deferred tax expense		
Origination and reversal of temporary differences	(3,540)	(5,650)
Changes in previously unrecognized tax losses, tax credits and unrecognized temporary differences	6,816	3,739
Changes in previously recognized tax losses, tax credits and recognized temporary differences for changes in enacted tax rates	3,354	-
Adjustment for prior periods	(96)	(1,583)
Total deferred taxation/(benefit) for the year	6,534	(3,444)
Total income tax expense reported in the income statement	20,708	8,383

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:

	2007	2006
Profit before income tax	28,810	2,696
Income tax using the Company's weighted average tax rate	10,948	1,025
Foreign dividend repatriations	-	496
Non-deductible expenses	391	214
Current year losses for which no deferred tax asset was recognized and changes in unrecognized temporary differences	16,483	13,168
Recognition of previously unrecognized tax losses, tax credits and temporary differences of a prior year	(9,667)	(9,379)
Changes in previously recognized tax losses, tax credits and recognized temporary differences for changes in enacted tax rates	3,354	2,635
Under (over) provided in prior periods	(99)	(1,616)
Other	(702)	1,840
	20,708	8,383
Included in the following lines of the consolidated income statement:		
Income tax expense	19,322	8,383
Goodwill adjustment relating to deferred tax asset	1,386	-
	20,708	8,383

The goodwill adjustment relating to deferred tax assets of \$1,386 relates to the release of the previously recorded valuation allowance for deferred tax assets, recorded at initial recognition of the applicable business combination, based on recent information.

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 recognised.

During the years ended 31 December 2007 and 2006, the income tax benefits related to current year losses of certain US subsidiaries and the Canadian magnesium business have not been recognised. In total, \$16,483 and \$13,168 were not recognised in 2007 and 2006, respectively, as it is not probable the amounts will be realised.

During the years ended 31 December 2007 and 2006, certain income tax benefits related to previously unrecognised tax losses and temporary differences related to the Canadian solar silicon business and of a German subsidiary were recognised. In total, \$9,667 and \$9,379 were recognised in 2007 and 2006, respectively, through an increase to the net deferred tax asset of \$9,667 in 2007 and \$6,148 in 2006. Additionally, a current tax benefit of \$3,231 was recognised in 2006. The income tax benefits were recognised since we believe it is probable the amounts will be realised.

Also during the years ended 31 December 2007 and 2006, the net recognised deferred tax assets/(liabilities) were adjusted for changes in the enacted tax rates in Canada, Germany and the UK. The impact of the tax rate changes was an increase to income tax expense of \$3,354 and \$2,635 for 2007 and 2006, respectively.

There were no income tax consequences attaching to the payment of dividends in either 2007 or 2006 by AMG Advanced Metallurgical Group N.V. to its shareholders.

The main factors considered were improved profitability, higher forecast profitability and the indefinite carryforward period of the tax losses. After assessing these factors, we have determined that it is probable that the deferred tax benefit of the tax losses and temporary differences will be realised.

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 recognised to the extent it is probable the temporary differences, unused tax losses and unused tax credits will be realised. The realisation 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.

At 31 December 2007, the Company had tax loss carry-forwards of \$171,680 from US operations and \$60,802 from Canadian operations, which expire through 2027. There were also tax loss carry-forwards of \$29,435 from German operations, \$3,011 from Brazilian operations and \$562 from Belgium operations, which do not expire. The majority of these tax loss carryforwards are subject to restriction under change of ownership provisions and have not been recognised at 31 December 2007 (see Unrecognised deferred tax assets/(liabilities) below).

Recognized deferred tax assets/(liabilities)

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

	Consolidated Balance Sheet				Consolidated Income Statement	
	Assets		Liabilities			
	2007	2006	2007	2006	2007	2006
Inventories	39,147	21,375	41	170	(13,671)	(2,230)
Long-term contracts	12,145	3,310	75,259	34,071	25,264	2,953
Prepays and other current assets	2,106	2,501	2,183	2,039	288	597
Property, plant and equipment	3,747	1,015	5,981	4,390	(1,520)	(2,633)
Deferred charges and non-current assets	506	57	2,224	2,182	(13)	57
Accruals and reserves	3,743	2,630	2,159	529	739	(302)
Environmental liabilities	261	366	-	-	(199)	(127)
Retirement benefits	11,614	10,715	367	12	1,040	1,343
Tax loss and tax credit carry-forwards	17,370	10,166	-	-	(5,394)	(3,102)
Tax assets/liabilities	90,639	52,135	88,214	43,393		
Set-off of tax	(56,102)	(30,404)	(56,102)	(30,404)		
Net tax assets/liabilities	34,537	21,731	32,112	12,989		
Deferred income tax (benefit) provision					6,534	(3,444)

Unrecognized deferred tax assets/(liabilities)

Deferred tax assets/(liabilities) have not been recognised 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 31 December 2007 there were gross unrecognized tax loss carry-forwards of \$157,376 from US operations and \$45,722 million from Canadian operations, both of which expire through 2027, and \$16,000 from German operations, which do not expire. At 31 December 2006 there were gross unrecognized tax loss carry-forwards of \$115,356 from US operations and \$34,988 million from Canadian operations, both of which expire through 2026, and \$19,089 from German operations, which do not expire.

Notes to the Consolidated Financial Statements

10. Income tax (continued)

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

	Assets		Liabilities	
	2007	2006	2007	2006
Inventories	516	1,554	50	104
Prepays and other current assets	-	24	53	119
Property, plant and equipment	7,833	8,191	2,831	2,054
Accruals and reserves	4,100	3,784	-	13
Deferred charges and non-current assets	916	240	-	-
Environmental liabilities	3,416	3,999	-	-
Retirement benefits	9,713	13,843	660	194
Tax loss and tax credit carry-forwards	78,935	62,661	-	-
Tax assets/(liabilities)	105,429	94,296	3,594	2,484
Set-off of tax	(3,594)	(2,484)	(3,594)	(2,484)
Net tax	101,835	91,812	-	-

11. Property, plant and equipment

	Land and Buildings	Machinery and Equipment	Furniture and Fixtures	Construction in progress	Finance Leases	Total
Cost						
Balance at 1 January 2006	51,707	268,149	14,273	3,796	745	338,670
Additions	1,406	9,386	1,101	11,020	-	22,913
Retirements and transfers	731	(5,611)	(485)	(7,152)	(501)	(13,018)
Effect of movements in exchange rates	2,874	5,980	1,055	36	28	9,973
Balance at 31 December 2006	56,718	277,904	15,944	7,700	272	358,538
Balance at 1 January 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 31 December 2007	78,340	339,361	23,200	15,091	1,092	457,084

Depreciation and impairment losses

Balance at 1 January 2006	(23,002)	(199,074)	(10,472)	-	(330)	(232,878)
Depreciation for the year	(1,920)	(13,956)	(1,446)	-	(20)	(17,342)
Retirements and transfers	633	9,216	451	-	132	10,432
Impairments	(549)	(9,665)	(18)	-	-	(10,232)
Effect of movements in exchange rates	(1,592)	(4,848)	(816)	-	(6)	(7,262)
Balance at 31 December 2006	(26,430)	(218,327)	(12,301)	-	(224)	(257,282)
Balance at 1 January 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 31 December 2007	(36,693)	(246,306)	(18,027)	-	(295)	(301,321)

Carrying amounts

At 1 January 2006	28,705	69,075	3,801	3,796	415	105,792
At 31 December 2006	30,288	59,577	3,643	7,700	48	101,256
At 1 January 2007	30,288	59,577	3,643	7,700	48	101,256
At 31 December 2007	41,647	93,056	5,173	15,091	797	155,763

Depreciation of property, plant and equipment

Depreciation expense for year ended 31 December 2007 was \$17,149 (2006: \$17,342). Depreciation expense is recorded in the following line items in the consolidated income statement:

	2007	2006
Costs of sales	14,040	12,476
Selling, general and administrative expenses	3,109	4,866
Total	17,149	17,342

Sale of equipment

Certain equipment was sold in the years ended 31 December 2007 and 2006. In those years, the Company received proceeds of \$768 and \$420, respectively. 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 and \$2,617 for the years ended 31 December 2007 and 2006, respectively.

Impairment loss

Impairment losses were recorded at certain locations in 2006 due to the discontinued use of certain assets.

2006

In 2006, a write-down of \$41 was recorded related to the relocation of Corporate headquarters.

In 2007, fixed asset impairment charges of \$76 (2006: \$932) 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 2006, asset impairment charges of \$396 were recorded at LSM relating to certain assets on the plant site that are no longer functioning and are presumed to have no resale value.

In 2007, asset impairment charges of \$136 were recorded at ALD TT relating to certain assets on the plant site that are no longer functioning and are presumed to have no resale value.

The assets that were impaired, as described above, were no longer providing any cash flows to the subsidiaries. Therefore, it was determined that the fair value less cost to sell would provide the higher recoverable amount. The fair value less cost to sell methodology was used for all charges described above whereby fair value was determined by evaluating the potential markets for such assets. Based on the external market and the age of these assets, they were deemed to have no resale value and therefore were written down to \$0.

In the year ended 31 December 2006, Timminco recorded fixed asset impairment charges of \$8,863 for the values of fixed assets at certain facilities that were no longer recoverable. See further discussion of impairment assumptions as discussed in note 12.

The asset impairment charges, totalling \$212 in 2007 (2006: \$10,232) are included in the Restructuring and asset impairment expenses line of the consolidated income statement.

Leased plant and machinery

The Company leases office space, facilities and equipment under a number of operating lease agreements.

Security

At 31 December 2007 properties with a carrying amount of \$115,653 (2006: \$86,163) are pledged as collateral to secure certain bank loans of subsidiaries.

Property, plant and equipment under construction

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

During the year ended 31 December 2006, the subsidiaries of the Company embarked upon several different manufacturing equipment upgrades that are meant to improve efficiency and expand capacity. Costs incurred up to the reporting date, which are included in construction in progress totalled \$7,700.

Finance Leases

At 31 December 2007, the Company had \$797 (2006: \$48) of finance leases for equipment and software.

12. Intangible assets

	Goodwill	Other intangible assets	Total
Cost			
Balance at 1 January 2006	34,280	13,839	48,119
Additions	—	1,379	1,379
Disposals	—	—	—
Effect of movements in exchange rates	1,836	906	2,742
Balance at 31 December 2006	36,116	16,124	52,240
Balance at 1 January 2007	36,116	16,124	52,240
Additions	454	2,063	2,517
Disposals	—	—	—
Recognition of deferred taxes on acquisition	(1,386)	—	(1,386)
Effect of movements in exchange rates	4,796	2,157	6,953
Balance at 31 December 2007	39,980	20,344	60,324
Amortization and impairment			
Balance at 1 January 2006	—	(5,752)	(5,752)
Amortization	—	(1,187)	(1,187)
Disposals	—	—	—
Effect of movements in exchange rates	—	(403)	(403)
Balance at 31 December 2006	—	(7,342)	(7,342)
Balance at 1 January 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 31 December 2007	—	(10,033)	(10,033)
Carrying amounts			
At 1 January 2006	34,280	8,087	42,367
At 31 December 2006	36,116	8,782	44,898
At 1 January 2007	36,116	8,782	44,898
At 31 December 2007	39,980	10,311	50,291

Intangible assets is comprised of goodwill 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 amortised 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 31 December 2007 was \$6,191 (2006: \$4,046)

Amortization of intangible assets

Amortization expense for year ended 31 December 2007 was \$1,514 (2006: \$1,187). Amortization expense is recorded in the following line items in the consolidated income statement:

	2007	2006
Costs of sales	1,367	1,054
Selling, general and administrative expenses	147	133
Total	1,514	1,187

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill and indefinite-life 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 and Timminco is included in its similarly named segment.

The aggregate carrying amounts of goodwill and intangible assets with indefinite lives allocated to each unit are as follows:

	2007	2006
Sudamin cash-generating unit (France)	11,552	10,440
LSM cash-generating unit (UK)	1,510	1,510
Timminco cash-generating unit goodwill	17,876	16,431
ALD cash-generating unit	9,042	7,735
Goodwill at cash-generating units	39,980	36,116

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.

Growth rate assumptions - Rates are based on management's interpretation of published industry research.

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, Timminco and ALD Groups' 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. The carrying amounts of the Metallurg and ALD units were determined to be lower than their recoverable amounts and impairment losses were not recognized. The Timminco cash-generating unit was impaired in 2006 and recorded an impairment charge of \$12,908. Its carrying amount was determined to be lower than its recoverable amount in 2007.

12. Intangible assets (continued)

(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 was projected at about \$81,127 in the first year of the business plan. The anticipated annual revenue growth included in the cash flow projections was about 0.7% for the year 2007. Growth of approximately 39.1% and 3.3% in revenues were projected for the years 2009 and 2010, respectively. Management plans to achieve annual revenue of \$116,519 thousand by the third year of the business plan
- Discount rates of 9.42% and 8.41% were applied in determining the recoverable amount of the unit for the years ended 31 December 2007 and 2006, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness

(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 was projected at about \$255,359 in the first year of the business plan. Revenue is expected to decline by 2.9% in the cash flow projections for the year 2008. Growth of approximately 4.8% was projected for the years 2009 and 2010. Management plans to achieve annual revenue of \$280,913 by the third year of the business plan
- Discount rates of 9.65% and 9.28% were applied in determining the recoverable amount of the unit for the years ended 31 December 2007 and 2006, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness

(3) 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 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 North America
- Revenue was projected at about \$300,823 in the first year of the business plan. The anticipated annual revenue growth included in the cash flow projections was about 96.5% for the year 2008. Growth of approximately 79.4% and 42.0% in revenues was projected for the years 2009 and 2010, respectively. Management plans to achieve annual revenue of \$766,055 by the third year of the business plan. The growth rates for this business are due to a new product developed in 2007 for which Timminco already has firm orders which will substantially increase the revenues and margins of this business
- Discount rates of 9.48% and 12.26% were applied in determining the recoverable amount of the unit for the years ended 31 December 2007 and 2006, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness

(4) 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 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 was projected at about \$373,143 in the first year of the business plan. The anticipated annual revenue growth included in the cash flow projections was about 19.4% for the year 2008. Growth of approximately 5.1% and 7.4% in revenues was projected for the years 2009 and 2010, respectively. Management plans to achieve annual revenue of \$421,209 by the third year of the business plan
- Discount rates of 7.48% and 6.00% were applied in determining the recoverable amount of the unit for the years ended 31 December 2007 and 2006, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness

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 amounts of this individual asset as of 31 December 2007 and 2006 were \$1,852 and \$2,222, respectively. The carrying amounts were determined to be higher than the investment's recoverable amounts and an impairment loss of \$693 was recognized for the year ended 31 December 2006. The impairment was recognized in the Restructuring charges and asset impairment line in profit and loss.

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 2008, 2009 and 2010 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 was projected at about \$46,387 in the first year of the business plan. The anticipated annual revenue decline included in the cash flow projections was about 11.4% for the year 2008. A growth of 5.0% in revenues was projected for the years 2008 and 2009. Management plans to achieve annual revenue of \$51,142 by the third year of the business plan
- Discount rate of 7.32% was applied in determining the recoverable amount of the asset for the years ended 31 December 2007 and 2006, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness

13. Associates

The following represent the associates of the Company that are presented in these consolidated financial statements:

The Company's share of loss in its associates for 2007 was \$3,213 and for 2006 was \$2,372.

In 2007, ALD GmbH made an investment of approximately \$3,591 to purchase 19.01% ownership in Heidenreich and Harbeck AG ("H&H") from its current ownership. As of 31 December 2007, this has been accounted for as an equity investment.

On 7 June 2006, GfE made a payment, valued at approximately \$2,700, to purchase a 24.9% share of ownership in FNE Forschungsinstitut 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 1 January 2007 through 1 January 2008. GfE exercised the option on 3 December 2007 and purchased the remaining 75.1% of shares of FNE for \$4,031. FNE has been consolidated as of 31 December 2007. See note 5 for more details.

In October 2006, ALD GmbH made an investment of approximately \$1,420 to purchase 19.9% ownership in ABS Apparate und Behälterbau GmbH from its current ownership. An additional investment of \$766 was made in 2007 to increase the ownership to 24.9%. As of 31 December 2007 and 2006, this has been accounted for as an equity investment.

In July 2007, the Company paid a de minimis amount in order to require an additional 0.2% of Ester-Technologie GmbH. This entity was accounted as an equity investment in 2006 and has been consolidated, due to increased control over the investment, for the year ended 31 December 2007. Prior to the consolidation of this entity, the Company recognised a loss of \$245.

Acquisition of Fundo Wheels

Fundo Wheels AS ('Fundo'), located in Hoyanger, Norway, is an original equipment manufacturer of cast aluminium 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 Fundo and neither Nor-Wheels nor the Company can exercise the call or the put option until 1 January 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 31 December 2007, Timminco has a 47.1% share in Fundo and the Community owns approximately 52.9%.

On 10 September 2007, Timminco loaned Fundo, its 47.1% owned equity affiliate, \$1,899 to assist Fundo with its working capital requirements. This loan is due 31 December 2010, bears interest at three month NIBOR plus 4% and is to be repaid in installments commencing 30 September 2009. The loan is secured by a charge against Fundo's land, buildings and equipment and is subordinate to Fundo's bank debt. The loan is convertible into shares of Fundo at Timminco's option at Fundo's book value on the date the loan was granted or on the date of conversion at Timminco's option. The conversion of this loan is restricted such that Timminco cannot exceed ownership of 49.9% of Fundo through the conversion of this loan.

On 12 December 2007, Timminco loaned Fundo, its 47.1% owned equity affiliate, \$2,671 to assist Fundo with its working capital requirements. This loan is due 31 December 2010, bears interest at three month NIBOR plus 4% and is to be repaid in installments commencing 30 September 2009. The loan is secured by a charge against Fundo's land, buildings and equipment and is subordinate to Fundo's bank debt. The loan is convertible into shares of Fundo at Timminco's option at Fundo's book value on the date the loan was granted or on the date of conversion at Timminco's option.

Notes to the Consolidated Financial Statements

13. Associates (continued)

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

	Country	Ownership	Total Assets	Total Liabilities	Net Equity	Revenues	Expense	Recognised Profit or loss	Carrying or loss
2007									
Bostlan	Spain	25.0%	8,030	5,700	2,330	13,636	13,313	323	1,852
ALD Holcroft Vacuum Technologica Co. Inc	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	43,625	(3,554)	6,801
ABS Apparate und Behälterbau GmbH	Germany	24.9%	1,380	345	1,035	5,196	4,860	335	2,429
Heidenreich and Harbeck AG	Germany	19.01%	3,411	2,825	586	8,110	8,110	-	3,859
Other Disposals			-	-	-	-	-	(466)	-
Total								(3,213)	15,145
2006									
Bostlan	Spain	25.0%	6,922	5,244	1,678	8,736	8,688	63	1,547
ALD Holcroft Vacuum Technologica Co. Inc	United States	50.0%	1,405	1,412	(7)	1,771	1,721	51	303
EstreR-Technologie GmbH	Germany	50.0%	58	101	(43)	-	33	(33)	171
Fundo Wheels A.S.	Norway	47.1%	26,147	19,862	6,285	34,143	36,845	(2,702)	7,941
ABS Apparate und Behälterbau GmbH	Germany	19.9%	732	288	444	2,208	2,082	126	1,479
INET Forschungsinstitut für Nichteisen-Metalle Freiberg	Germany	24.9%	4,550	2,692	1,858	1,954	1,831	123	1,862
Total			39,814	29,599	10,215	48,812	51,200	(2,372)	13,303

14. Inventories

	2007	2006
Raw materials	69,724	52,907
Work in progress	22,137	15,285
Finished goods	89,649	86,511
Other	4,900	4,948
Total	186,410	159,651

In 2007 raw materials, changes in finished goods and work in progress contributed to cost of sales by \$680,817 (2006: \$536,644). In 2007 the write-down of inventories to net realisable value amounted to \$1,888 (2006: \$227) and was included in cost of sales. Other inventory primarily includes spare parts that are maintained for operations.

In 2006, an impairment charge of \$1,983 was recorded at Timminco with respect to the carrying amount of its inventories (see note 12).

Inventory in the amount of \$168,767 (2006: \$145,739) is pledged as collateral to secure the bank loans of certain subsidiaries (see note 21).

15. Trade and other receivables

	2007	2006
Trade debtors	132,296	116,814
Note receivables from related parties	939	6,590
Gross amount due from customers for contract work (POC)	244,111	85,930
Less: progress payments received	(190,103)	(68,358)
Net POC receivables	54,008	17,572
Total	187,243	140,976

At 31 December 2007, trade receivables includes 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 35.

At 31 December 2007, receivables in the amount of \$179,540 (2006: \$92,580) 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 21).

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

At 31 December 2007, trade receivables are shown net of an allowance for impairment of \$1,851 (2006: \$1,390) arising from customer unwillingness or inability to pay. During the year ended 31 December 2007 and 2006, impairment losses in the amount of \$459 and \$455, respectively, have been recorded.

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

	2007	2006
At January 1	1,390	1,553
Charge for the year	459	455
Amounts written off	(191)	(489)
Unused amounts reversed	(121)	(129)
Adjustment for acquisition	314	-
At 31 December	1,851	1,390

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

	Total	Neither past due nor impaired	< 30 days	30-60 days	60-90 days	Past due but not impaired	
						90-120 days	> 120 days
2007	188,155	145,079	30,491	6,713	2,150	469	3,253
2006	135,776	115,003	12,109	4,441	3,782	(2,223)	2,663

16. Short-term investments

Short-term investments of \$15,333 at 31 December 2007 (2006: nil) consists of Treasury Bills with maturities between three and six months.

17. Restricted cash

Restricted cash, of \$14,582 at 31 December 2007 (2006: nil), is comprised 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 21, the Company was obligated to establish a reserve of approximately \$5,947 to secure continuing obligations with respect to its existing letters of credit.

18. Cash and cash equivalents

	2007	2006
Bank balances	158,468	44,728
Call deposits	14,090	9,882
	172,558	54,610

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 31 December 2007, the Company had available \$83,558 (2006: 36,267) 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 31 December 2007 (2006: nil).

Notes to the Consolidated Financial Statements

19. Capital and reserves

Initial public offering

On 11 July 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 27 June 2007 and 5:00pm CET on 11 July 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 €212,325. €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:	57,686
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 27 June 2007 and 5 July 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 (11 July 2007) was 1.3654 creating a difference of (\$3,798) between the IPO date exchange rate and forward contract exchange rates.

Share capital

At 31 December 2007, the Company's authorised share capital was comprised of 100,000,000 ordinary shares (2006: 1,000) with a nominal share value of €0.02 (2006: €100). At 31 December 2007, the issued and outstanding share capital was comprised of 26,803,086 ordinary shares (2006: 450), with a nominal value of €0.02 (2006: €100) which were fully paid.

A rollforward of the total shares outstanding is noted below:

	Shares Outstanding
Balance at 1 January 2006	—
Issuance of shares upon establishment of Company	450
Balance at 31 December 2006	450
Balance at 1 January 2007	—
Effect of share split	29-March 449,550
MDHC contribution	29-March 550,000
ALD contribution	29-March 2,129,486
Timminco contribution 1	29-March 173,893
Timminco contribution 2	2-April 189,840
Effect of share splits	26-June 13,972,876
Initial public offering	11-July 9,333,409
Issuance of shares to directors	11-July 3,582
Balance at 31 December 2007	26,803,086

MDHC contribution

On 29 March 2007 the Company issued a total of 549,716 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).

In addition, on 2 April 2007 the Company issued 254 Shares to The Lanigan Trust dated 8 March 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 29 March 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 payment.

Timminco contributions

On 29 March 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 26 June 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.

Other

On 29 March 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 26 June 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.

In the year ended 31 December 2007, the Company accounted for the contributions of the aforementioned 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 31 December 2006.

Timminco capital

On 30 April 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 30 April 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 23 July 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 31 August 2006.

On 27 September 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.

Notes to the Consolidated Financial Statements

19. Capital and reserves (continued)

Other reserves

	Net unrealised gains (losses) reserve	Foreign currency translation reserve	Share-based payment reserve	Treasury reserve	Total
Balance at 1 January 2006	906	(4,499)	–	–	(3,593)
Currency translation differences	–	2,952	–	–	2,952
Net movement on cash flow hedges	(162)	–	–	–	(162)
Tax effect on net movement on cash flow hedges	(210)	–	–	–	(210)
Acquisition of treasury shares	–	–	–	(14,300)	(14,300)
Balance at 31 December 2006	534	(1,547)	–	(14,300)	(15,313)
Balance at 1 January 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 31 December 2007	270	1,673	3,957	(15,823)	(9,923)

Net unrealised gains (losses) reserve

The net unrealised 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 realised in the income statement, see note 31.

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 1 January 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. Prior to 1 January 2005, all foreign operations with functional currencies other than the US Dollar, translated their asset and liability accounts at current exchange rates and their income and expenses were translated using average exchange rates. 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 25 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. This reserve had a balance of \$15,823 and \$14,300 at 31 December 2007 and 2006, respectively.

20. 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 31 December 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 IPO (note 19). At year end 31 December 2006, basic earnings per share has been presented on a proforma basis and were calculated having given effect to share splits, contributions in kind, and shares issued with respect to the IPO.

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 31 December 2007 are AMG's share options. For these options we have calculated 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. At year end 31 December 2006, diluted earnings per share have been presented on a proforma basis and were calculated having given effect to share splits, contributions in kind, and shares issued with respect to the IPO.

Earnings	2007	2006
Net profit attributable to equity holders for basic and diluted earnings per share	11,695	4,507
Number of shares (in 000's)		
Weighted average number of ordinary shares for basic earnings per share	26,801	26,800
Dilutive effect of share-based payments	517	-
Weighted average number of ordinary shares adjusted for effect of dilution	27,318	26,800

21. 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 30 and 31.

Non-current	Effective interest rate	Maturity	2007	2006
€71,003 Term Loan	EURIBOR+1.50%	2012	94,662	-
\$117,500 Senior secured Class A notes, net of unamortized discount of \$6,549	10.50%	2010	-	109,055
\$50,000 Senior secured Class B notes, net of unamortized discount of \$2,949	LIBOR+11.00%	2010	-	46,719
\$11,871 LSM term note	LIBOR+1.25%	2009	-	6,113
€4,597 GfL term loan	3.95%	2008	-	128
€2,200 GfE bank loan	4.92%	2023	2,675	2,476
€4,616 GfE subsidiary debt	2.99%-6.81%	Var	3,652	-
€6,400 Sudamin revolving credit	EURIBOR+2.50%	2010	-	6,334
CAD250 Timminco line of credit	7.00%	2010	156	173
€2,500 ALD loan	3.514%+variable margin	2010	-	1,593
€10,000 Al D subordinated loan	8.038%	2012	14,184	12,754
Capital lease obligations	6.03%	2010-2011	397	-
Other			-	41
Total Non-current			115,726	185,386

Notes to the Consolidated Financial Statements

21. Loans and borrowings (continued)

Current	Effective interest rate	Maturity	2007	2006
\$12,405 LSM term note	LIBOR+1.00%	2009	-	8,234
\$11,871 LSM term note	LIBOR+1.25%	2009	-	1,458
€1,597 GfE term loan	3.95%	2008	-	759
€2,200 GfE bank loan	4.92%	2023	112	145
€4,616 GfE subsidiary debt	2.9%-6.81%	Various	759	-
€6,400 Sudamin revolving credit facility	EURIBOR+2.50%	2010	-	2,112
\$5,750 Timminco term loan	PRIME+1.50%-2.25%	2007	-	3,738
€1,260 ALD investment loan	3.18%	2007	-	306
€500 ALD loan	5.03%	2007	-	165
€2,500 ALD loan	3.514% +variable margin	2010	-	660
\$5,000 ALD loan	LIBOR+2.25%-2.75%	2012	-	5,006
Capital lease obligations	5.42%	2010-2011	231	-
Other			-	76
Total Current			1,102	22,659

Refinancing

On 30 August 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 30 August 2012 (together the 'Credit Facility'). The Credit Facility is secured by substantially all of the assets of the material subsidiaries, excluding Timminco, and a 100% pledge on all of the Timminco shares which are owned by the Company.

Borrowings under the Revolving Credit Facility may be used for general corporate purposes of the Company.

Interest on the Credit Facility is based on current LIBOR (or in the case of any loans denominated in Euros, EURIBOR) plus a 1.50% margin. To mitigate risk, the Company entered into an interest rate swap to fix the interest 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 3.00: 1

*EBITDA, Net Debt, and Net Finance Charges 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 15 August 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, \$3,264 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, LSM repaid \$15,800 of remaining principal on its two term loans with Barclays and HSBC and incurred a loss on debt extinguishment of \$145, which consists of prepayment penalties and fees.

GfE and Sudamin, with the proceeds from the Refinancing, terminated their credit facilities with various lenders on 19 September 2007 and repaid all outstanding borrowings as of this date.

GfE maintains a loan agreement with Sparkasse Nuremberg which was originated on 1 December 2003 and requires annual payments of approximately \$132. This loan is also secured by land and buildings.

Timminco credit facilities

On 15 April 2005, Timminco entered into a Credit Agreement (the 'Agreement') with Bank of America, NA. The Agreement provided for a \$5,750 term loan. The term loan bears interest at the prime rate plus 1.5% to 2.25% and requires quarterly repayments of approximately \$300. The Agreement contained certain change of control provisions that were violated upon Timminco's private placement and AMG's public offering; requiring Timminco to terminate this facility on 27 September 2007.

Timminco also entered into a line of credit in 2006 valued at \$215 with Elkon Products. This line of credit had \$156 outstanding as of 31 December 2007 (2006: \$173).

ALD credit facility

ALD entered into a Subordinated Loan Agreement with HSBC Trinkhaus & Burkhardt KGaA. The principal amount of the subordinated loan is \$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 10 August 2012.

Debt issuance costs

In connection with the Refinancing, the Company incurred issuance costs which were deducted from the proceeds of the debt from the term loan. These costs totalled \$9,105 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%.

In connection with amendments made to the Timminco credit facility, issuance costs of \$207 were paid during the year ended 31 December 2006.

Capital leases

On 1 April 2007, Sudamin 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.

Debt repayments

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); Bayerische 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.

During 2006, the Company repaid \$8,487 of long-term debt. Of this amount, \$2,594 related to payments made by LSM on its HSBC and Barclay's term loans of \$1,457 and \$1,137, respectively. Sudamin repaid \$2,112 of its ING and Fortis term loans in 2006. GfE also repaid \$1,185 related to the repayment of a debt with IKB. The remaining \$2,596 of repayments related to other debt.

Notes to the Consolidated Financial Statements

22. Related party debt

On 9 March 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 coincided 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 30 April 2007, when Safeguard converted the entire principal amount of this loan into 5.6 million Timminco shares.

On 5 September 2006, Timminco borrowed \$3,000 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 \$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 23 July 2007, when Safeguard converted a portion of its principal balance in exchange for 914 thousand Timminco shares. At 31 December 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 31 December 2007. This loan and accrued interest were paid in full on 3 May 2007.

On 1 March 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 31 December 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

As described in note 19, in conjunction with the contribution in kind of ALD International, the Company assumed a liability ALD had with PFW Aerospace, a Safeguard company, of approximately €16,100. The outstanding amount of \$21,783 was repaid by the Company on 19 July 2007.

With proceeds from the Refinancing described in note 21, GfE and Sudamin repaid \$6,583 and \$4,652, respectively of outstanding loans with Safeguard and other Safeguard related entities.

In 2006, the Company repaid \$3,391 related to a loan between GfE and Sudamin LLC (a Safeguard company).

23. Short-term bank debt

Credit facility

As discussed in note 21, in connection with the Refinancing, the Company entered into the Revolving Credit Facility on 30 August 2007, to finance its general corporate operations. This facility provides the Company with up to \$175,000 in borrowings, which is subject to certain affirmative and negative covenants (note 21). As of 31 December 2007, there was nothing outstanding under the Revolving Credit Facility. There was unused availability of \$83,558, as \$91,442 of the \$175,000 is reserved for ancillary facilities at ALD and LSM.

Debt extinguishment

In connection with the Refinancing described in note 21, the Company extinguished its \$30,000 existing credit facility on 19 September 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, LSM terminated its \$14,600 credit facility with Barclays and HSBC. There was no loss recorded related to this transaction.

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 recorded related to this transaction.

Timminco

On 15 April 2005, Timminco entered into a Credit Agreement (the 'Agreement') with Bank of America, NA. The Agreement provides for maximum credit lines of \$32,800, limited by a borrowing base, in a revolving loan (the 'Revolver'). The Revolver bears interest at the prime rate plus 0.5% to 1.25% and does not require minimum repayments. The Agreement originally expired on 30 November 2007 and was subject to certain requirements. On 30 September 2007, Timminco exercised an option to extend the maturity date of the loan until 31 March 2010. The loan is secured by the assets of Timminco. As at 31 December 2007, Timminco had availability of \$23,559 (2006: nil) under the Revolver and had \$21 outstanding (2006: \$22,522).

Other

CIF maintains short term secured and unsecured borrowing arrangements with various banks totalling \$23,000. Borrowings under these arrangements are included in Short-term debt on the consolidated balance sheet and aggregated \$15,476 at 31 December 2007 (2006: \$12,018) at a weighted-average interest rate of 6.34%.

GfE entered into a line of credit with Dresdner bank in 2007 at an interest rate of 9.25%. The balance of this loan as of 31 December 2007 was \$699.

Debt repayments

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 \$3,750, respectively of their outstanding borrowings.

24. 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 31 December 2007 recognized in the consolidated income statement of \$3,439 (2006: \$4,721) represents contributions paid and payable to these plans.

Notes to the Consolidated Financial Statements

24. Employee benefits (continued)

Defined benefit plans

North American plans

US plans (Metallurg)

Certain of the Company's US 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. The Company also maintains US tax qualified defined contribution plans covering substantially all of the Company's salaried 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.

On 1 June 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. At 1 June 2005, Metallurg recorded a prior service cost expense and a pension liability of \$516. 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 1 April 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 7 April 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 31 December 2007, Metallurg recorded a prior service cost expense of \$2,176 and a total pension liability of \$3,979. 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.

On 4 August 2006, the Board of Metallurg authorized and approved an amendment to the Pension Plan of Metallurg Inc. This plan covers all US salaried employees of Metallurg. The amendment, which became effective on 30 September 2006, froze all benefit accruals as of that date. All participants became fully vested in their benefits as of 30 September and each vested participant will receive their total pension benefit accrued through 30 September 2006, upon their retirement. The freezing of the plan led to curtailment gain in the amount of \$1,015 that was recorded as an increase to Retained earnings and an offsetting decrease in the accrued liability for defined benefit obligations. Concurrent with this change in the defined benefit plan for US salaried employees, the defined contribution plan was amended to provide for transition credits for salaried employees with certain ages and service levels. This amendment is meant to replace the benefits that are being terminated under the defined benefit plan.

Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages) are presented below.

	2007 % per annum	2006 % per annum
Expected return on plan assets at 1 January	8.25	8.25
Inflation	N/A	N/A
Salary increases	4.00	4.00*
Rate of discount at 31 December	6.25	6.00
Taxable wage base increases	3.00	3.00
IRC Section 401(a)(17) and 415 limits increases	3.00	3.00

* Until 30 September 2006.

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 7.0% for equities and approximately 8.0% 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%. 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 31 December 2008 is \$1,020.

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.

	2007 % per annum	2006 % per annum
Expected return on plan assets at 1 January	6.75	7.50
Inflation	n/a	n/a
Salary increases	n/a	n/a
Rate of discount at 31 December	5.00	5.00
Pension payments increases	n/a	n/a

Becancour 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.

	2007 % per annum	2006 % per annum
Expected return on plan assets at 1 January	7.00	7.00
Inflation	n/a	n/a
Salary increases	2.50	2.50
Rate of discount at 31 December	5.50	5.25
Pension payments increases	n/a	n/a
Health care inflation - Select	7.57	5.89
Health care inflation - Ultimate	4.51	4.30

The best estimate of contributions to be paid to the Timminco plans for the year ending 31 December 2008 is \$3,014.

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.

Notes to the Consolidated Financial Statements

24. Employee benefits (continued)

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:

	2007 % per annum	2006 % per annum
Equities	8.30	7.75
Bonds	4.50-6.00	4.30-5.00
Cash	5.50	5.00
Other	4.50	4.30
Overall for UK plans	4.50-7.75	4.30-7.10

The actual return on plan assets for the year ending 31 December 2007 was 6.4% for the primary and 7.2% for the additional defined benefit plan. The actual return on the plan assets over the year ending 31 December 2006 was 27.0% for the primary and 16.3% for the additional defined benefit plan, respectively.

Actuarial assumptions

	2007 % per annum	2006 % per annum
Inflation	3.30	2.90-3.00
Salary increases	n/a	n/a
Rate of discount at 31 December	6.00	5.30
Allowance for pension in payment increases of the Retail Prices Index (RPI) or 5% p.a. if less	3.20	2.90
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	3.30	2.90-3.00
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 31 December 2008 is \$1,712. 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 2008.

In 2006, Metallurg underwent a significant restructuring plan (see note 26) and made significant changes to the primary defined benefit plan at LSM. LSM amended the defined benefit plan in the UK, effective 31 May 2006 to freeze benefit accruals as of that date. Each vested participant will receive their total pension benefit accrued through 31 May 2006, upon retirement from LSM. The freezing of the defined benefit plan created a curtailment gain of \$14,144. The gain was recognized in the income statement and an offsetting decrease was recognized in the accrued pension liability.

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.

	2007 % per annum	2006 % per annum
Expected return on plan assets at 1 January	nil	nil
Inflation	n/a	n/a
Salary increases	2.00	2.00
Rate of discount at 31 December	5.50	4.51
Pension payments increases	2.00	1.90

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 31 December 2008 is approximately \$927.

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.

	2007 % per annum	2006 % per annum
Inflation	2.00	1.75
Salary increases	3.00	2.50
Rate of discount at 31 December	5.50-5.60	4.40
Pension payments increases	2.00	1.75

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% for all periods.

The best estimate of contributions to be paid to GfE's plans for the year ending 31 December 2008 is approximately \$2,390.

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.

	2007 % per annum	2006 % per annum
Inflation	nil	nil
Salary increases	2.50	2.50
Rate of discount at 31 December	4.20	4.00

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').

Notes to the Consolidated Financial Statements

24. Employee benefits (continued)

No contributions to Sudamin plans are expected for the year ending 31 December 2008.

Presented below are employee benefits disclosures for plans aggregated by geographical location into the US and European groups.

	North American plans		European plans	
	2007	2006	2007	2006
Present value of unfunded obligations	19,838	12,440	881	653
Present value of funded obligations	82,084	75,879	178,107	185,614
Total present value of obligations	101,922	88,319	178,988	186,267
Fair value of plan assets	(67,347)	(59,460)	(126,497)	(120,123)
Unamortized past service costs	(31)	(30)	-	-
Unrecognized actuarial (gains) and losses	(9,442)	(7,617)	24,677	6,797
Recognized liability for defined benefit obligations	25,102	21,212	77,168	72,941
Total employee benefits	25,102	21,212	77,168	72,941

Movement in employee benefits

	North American plans		European plans	
	2007	2006	2007	2006
Recognized liability for defined benefit obligations at 1 January	21,212	23,376	72,941	81,500
Expense recognized in profit and loss (see below)	6,464	3,340	3,162	5,362
Curtailment impact recognized in profit and loss	-	(1,015)	(4)	(14,144)
Amortization of vested past service cost	-	-	-	-
Benefits paid directly by the employer	-	-	(2,425)	(2,745)
Employer contributions	(5,417)	(4,437)	(3,333)	(3,071)
Effect of movements in foreign exchange rates	2,843	(52)	6,827	6,039
Net liability for defined benefit obligations at 31 December	25,102	21,212	77,168	72,941
Asset for defined benefit obligations at 31 December	-	-	539	92
Liability for defined benefit obligations at 31 December	25,102	21,212	77,707	73,033

Plan assets consist of the following:

	North American plans		European plans	
	2007	2006	2007	2006
Equity securities	37,297	31,926	84,430	81,368
Debt securities	24,619	23,337	37,084	32,457
Cash	5,431	4,003	216	107
Other	-	194	4,767	6,191
	67,347	59,460	126,497	120,123

Movement in present value of defined benefit obligations

	North American plans			European plans		
	2007	2006	2005	2007	2006	2005
Present value of defined benefit obligations at 1 January	88,319	86,635	70,433	186,267	192,374	188,081
Benefits paid directly by the employer or from the plan assets	(5,860)	(3,886)	(2,663)	(9,335)	(11,247)	(8,042)
Contributions from plan participants	363	278	234	-	149	369
Past service cost	-	-	513	(500)	609	-
Current service costs and interest (see below)	8,568	6,651	6,010	11,553	11,058	13,331
Curtailment impact recognized in profit and loss (see below)	-	(1,015)	121	(4)	(14,144)	-
Plan amendments	2,176	385	68	484	-	-
Unrecognized actuarial (gains) and losses	(3,090)	(503)	9,936	(16,122)	658	6,820
Effect of movements in foreign exchange rates	11,446	(226)	1,983	6,646	6,810	(8,185)
Present value of defined benefit obligations at 31 December	101,922	88,319	86,635	178,989	186,267	192,374

Movement in fair value of plan assets

	North American plans			European plans		
	2007	2006	2005	2007	2006	2005
Fair value of plan assets at 1 January	59,460	53,403	47,970	120,123	100,723	96,623
Employer contributions	5,417	4,437	2,499	3,337	3,071	4,654
Contributions from plan participants	363	278	234	-	149	369
Benefits paid from the plan assets	(5,860)	(3,886)	(2,663)	(6,909)	(8,502)	(5,431)
Administration fees	(70)	(66)	(62)	-	-	-
Expected return on plan assets	4,630	4,049	3,816	8,060	6,466	6,611
Unrecognized actuarial gains and (losses)	(3,708)	1,427	458	1,636	17,984	(1,804)
Effect of movements in foreign exchange rates	7,115	(182)	1,151	250	232	(299)
Fair value of plan assets at 31 December	67,347	59,460	53,403	126,497	120,123	100,723

Expense (income) recognized in profit or loss

	North American plans		European plans	
	2007	2006	2007	2006
Current service costs	3,485	2,043	2,395	2,491
Interest on obligation	5,083	4,608	9,158	8,567
Expected return on plan assets	(4,630)	(4,049)	(8,060)	(6,466)
Administration fees	70	66	-	-
Recognized actuarial losses	276	283	169	161
Amortization of vested past service cost	2,180	389	(500)	609
Special termination benefit	-	-	-	-
Subtotal of expense recognized in profit and loss	6,464	3,340	3,162	5,362
Curtailment impact recognized in profit and loss	-	(1,015)	(4)	(14,144)
Expense (income) recognized in profit and loss	6,464	2,325	3,158	(8,782)

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	
	2007	2006	2007	2006
Cost of sales	2,390	2,986	1,335	1,776
Selling, general and administrative expenses	4,074	354	1,823	3,586
Pension curtailment gain	-	(1,015)	-	(14,144)
	6,464	2,325	3,158	(8,782)

Amounts for the current and previous two periods are as follows:

North American plans

	2007	2006
Defined benefit obligation	101,922	88,319
Plan assets	67,347	59,460
(Deficit)/surplus	(34,575)	(28,859)
Experience adjustments on plan liabilities	1,167	(762)
Experience adjustments on plan assets	(3,541)	1,251

European plans

	2007	2006
Defined benefit obligation	178,989	186,267
Plan assets	126,497	120,123
(Deficit)/surplus	(52,492)	(66,144)
Experience adjustments on plan liabilities	(246)	(8,250)
Experience adjustments on plan assets	1,660	5,541

Notes to the Consolidated Financial Statements

25. Share-based payments

AMG

On 26 June 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.

Total grants under the Plan were 1,455,000 (as detailed below) and there were no exercises or expiries during the period. There were 10,000 options forfeited during the period. 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 uniformly over the vesting period. 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 31 December 2007, AMG, in conjunction with the AMG Option Plan, recorded share-based compensation amounting to \$3,768 which is included in Selling and administrative and Cost of goods sold in the statement of operations.

Movements

In thousands of options	Number of Options	Weighted Average Exercise Price
Outstanding at 1 January	-	n.a.
Granted during the year	1,455	25.06
Forfeited during the year	10	24.00
Exercised during the year	-	n.a.
Outstanding at 31 December	1,445	25.07

No options were exercisable as of 31 December 2007. The maximum number of options that can be granted under the Plan is 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:

	2007
Exercise Price	24.00-44.00
Share price at date of grant	29.50-44.00
Contractual life (years)	10
Dividend Yield (%)	Nil
Expected volatility (%)	70.40%
Risk-free interest rate (%)	4.26%- 4.54%
Expected life of option (years)	1-4 years
Weighted Average Share Price (€)	38.76
Expected departures (%)	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 our 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 amount recorded in the share-based payment reserve, \$3,957, has been grossed-up for deferred taxes in the amount of \$189.

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 31 December 2007 and 31 December 2006, 195,000 options were outstanding, fully vested and exercisable. The Company does not expect that these options will be exercised prior to expiration as all of the outstanding options under the plan, have an exercise price significantly above the market value of the shares.

All options under this plan were granted before 7 November 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 1 January 2005 and all options were fully vested at 1 January 2006. Therefore, no compensation expense was recorded in the years ended 31 December 2007 and 2006.

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 25 April 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.

On 10 November 2005, 1,740,000 stock options were granted under the Plan. The fair value of the grant, determined using the Black-Scholes option-pricing model, was C\$0.36 per option. The following assumptions were used to calculate the fair value: expected dividend yield of 0%, expected stock volatility of 57%, risk free interest rate of 3.85% and expected option life of 7 years. The share option expense is being amortized, according to the vesting schedule, over a four year period. On 8 May 2006, 200,000 stock options were granted under the Corporation's Stock Option Plan. The fair value of the grant, determined using the Black-Scholes option-pricing model, was C\$0.19 per option. The following assumptions were used to calculate the fair value: expected dividend yield of 0%, expected stock volatility of 62.9%, risk free interest rate of 4.38% and expected option life of 7 years. The share option expense is being amortized, according to the vesting schedule, over a four year period. On 15 December 2006, 700,000 stock options were granted under the Corporation's Stock Option Plan. The fair value of the grant, determined using the Black-Scholes option-pricing model, was C\$0.19 per option. The following assumptions were used to calculate the fair value: expected dividend yield of 0%, expected stock volatility of 74.8%, risk free interest rate of 3.94% and expected option life of 7 years. The share option expense is being amortized, according to the vesting schedule, over a four year period.

During the year ended 31 December 2007, Timminco recorded stock-based compensation amounting to \$439 (2006: \$386) 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 31 December 2007 and 2006 and changes during the years ended on those dates is presented below:

In thousands of options and Canadian Dollars	Weighted Average		Weighted Average	
	Number of Options	Exercise Price	Number of Options	Exercise Price
	2007	2007	2006	2006
Outstanding at 1 January	3,844	C\$0.71	3,650	C\$0.78
Granted during the year	1,250	C\$0.79	900	C\$0.38
Forfeited during the year	(695)	C\$0.87	(706)	C\$0.67
Exercised during the year	(269)	C\$0.57	--	--
Outstanding at 31 December	4,130	C\$0.72	3,844	C\$0.71
Exercisable at 31 December	1,483	C\$0.76	1,196	C\$0.88

At 31 December 2007, 1,483,000 options outstanding were exercisable at a weighted average price of C\$0.76 with a weighted average contractual life of 4.1 years. The maximum number of shares that can be granted under the Plan is 7,753,675.

Notes to the Consolidated Financial Statements

26. Provisions

	Environmental remediation	Restructuring	Other	Total
Balance at 1 January 2006	16,125	5,090	12,782	33,997
Provisions made during the period	11,844	4,966	4,907	21,717
Provisions used during the period	(19,744)	(5,580)	(5,015)	(30,339)
Currency and reversals	(59)	796	(1,916)	(1,179)
Balance at 1 January 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 31 December 2007	9,924	1,368	13,675	24,967
Non-current	6,656	919	4,436	12,011
Current	3,268	449	9,239	12,956
Balance at 31 December 2007	9,924	1,368	13,675	24,967
Non-current	5,835	—	4,153	9,988
Current	2,331	5,272	6,605	14,208
Balance at 31 December 2006	8,166	5,272	10,758	24,196

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 anticipates completing substantially all agreed work by the end of 2008. 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. Other environmental items requiring provision include: wetlands remediation and maintenance. These projects 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 Department of Environmental Protection 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 12 April 2006 and a payment of \$1,050 was made in March 2007. The only remaining reserve associated with groundwater is the \$1,050 that is due under the TRC agreement in 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 was approved for technical review in November 2006. 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 3 to 5 years. In addition, SMC will have to provide O&M for the site for 1000 years.

CIF: Sao Joao del Rei, Brazil

In the year ended 31 December 2007, CIF recorded a provision of \$138 related to environmental recoveries at its mine. Also, through its normal production process at the mine in Brazil, CIF produces a waste product that requires special handling. In the year ended 31 December 2006, CIF recorded a provision of \$846 in order to properly dispose of the waste that currently exists on-site.

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 fund were placed with investment banks which are responsible for making investments in equity and money market instruments. The trust fund is to be used according to the terms of the trust deed, and 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.

Timminco: Ontario, Canada

Timminco has \$2,437 and \$1,148 accrued at 31 December 2007 and 2006, respectively, for future site restoration and closure costs associated with its Haley mine. These costs are expected to be paid on a consistent basis over the next 5 years.

Restructuring

The Advanced Materials Group recorded restructuring charges of \$6,700 in the year ended 31 December 2006. \$3,776 of this expense was recorded at LSM, of which \$2,646 was related to employee severance expense and \$1,130 related to asset impairment and the write-down of certain assets. In the year ended 31 December 2007, LSM reversed \$128 related to the abovementioned accrued severance that will not be realized. Also in the year ended 31 December 2006, SMC recorded \$1,510 of restructuring expense related to the closure of their plant operations. \$1,159 of this expense related to the write-down of fixed assets and inventory and the remaining amount relates to severance and related employee termination costs. In the year ended 31 December 2007, SMC recorded \$76 of additional asset impairment related to the plant closure.

Also in the year ended 31 December 2006, Metallurg, Inc., CIF, and GfE recorded restructuring expense of \$1,414, related to employee severance. In the year ended 31 December 2007, GfE recorded \$150 of additional severance expense related to its restructuring plan.

In 2006, Timminco recorded \$2,000 related to the closure of certain production facilities at its Haley, Ontario plant. In 2007, Timminco reversed \$340 of this accrual for expense that is no longer expected to be paid.

Other

Other is comprised of warranty provisions and a share purchase liability related to our Engineering Systems business. The warranty provisions are expected to be utilised within the next 12 months. The share purchase liability relates to a subsidiary acquired in 2005 and is expected to be utilised over the next few years.

27. Government grants

	Government Grants
Balance at 1 January 2007	-
Provisions made during the period	15,503
Provisions used during the period	-
Currency and reversals	1,009
Balance at 31 December 2007	16,512
Non-current	8,585
Current	7,927
Balance at 31 December 2007	16,512

As discussed in note 5, ALD has an obligation for personnel expenses relating to its investment in Berlin. Under the government grant accounting being used, 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. As of 31 December 2007, the current and non-current portions of this provision were \$7,927 and \$8,585 respectively.

Notes to the Consolidated Financial Statements

28. Other liabilities

Other liabilities are comprised primarily of the following:

	2007	2006
Accrued bonus	10,402	5,523
Accrued interest	2,046	5,772
Accrued professional fees	6,769	7,559
Acquisition liability	-	3,330
Accrued employee payroll expenses	4,170	5,773
Accruals for costs	2,171	2,306
Claims	3,635	3,580
Fiscal contingency	2,891	2,347
Other benefits and compensation	8,620	5,100
Taxes, other than income	3,330	3,432
Other miscellaneous liabilities	7,409	3,457
	51,443	48,179
Thereof:		
Current	42,356	42,753
Long-Term	9,087	5,426

29. Trade and other payables

	2007	2006
Trade payables	102,894	86,145
Trade Payables - Percentage of Completion	23,933	7,696
	126,827	93,841

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 35

30. 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 5% 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. The Company's maximum exposure is the carrying amount as discussed in note 15.

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. Counterparties are generally multinational financial institutions with limited risk of default.

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 bi-weekly basis. However, at certain subsidiaries, this type of monitoring is done either daily or monthly. 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. Interest was fixed through an interest rate swap discussed in note 31.

The table below summarizes the maturity profile of the Company's financial liabilities at December 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
Totals Payments	511,112	158,861	43,756	20,060	22,015	21,226	137,160	108,034

Notes to the Consolidated Financial Statements

30. Financial risk management objectives and policies (continued)

The table below summarizes the maturity profile of the Company's financial liabilities at December 2006 based on contractual undiscounted payments.

2006	Contractual Cash Flows	< 3 months	3-12 months	2009	2010	2011	2012	>2012
Term Loan	19,543	649	12,782	1,458	4,654	-	-	-
Cash interest on term loan	3,532	-	1,310	1,186	1,036	-	-	-
Fixed rate loans and borrowings	25,082	960	8,391	163	168	142	129	15,129
Floating rate loans and borrowings	185,429	-	7,117	2,112	2,112	174,088	-	-
Cash interest on loans and borrowings	93,700	19	22,288	21,864	21,749	25,533	1,092	1,155
Related party debt	-	-	-	-	-	-	-	-
Interest on related party debt	-	-	-	-	-	-	-	-
Foreign exchange forward contracts	1,874	1,015	859	-	-	-	-	-
Commodity forward contracts	-	-	-	-	-	-	-	-
Financial lease liabilities	65	-	20	20	20	5	-	-
Pension plan obligations	128,952	2,354	6,206	7,911	7,985	8,091	8,199	88,206
Environmental remediation liabilities	8,624	120	1,609	218	5,127	87	72	1,390
Trade and payables	93,841	93,675	-	166	-	-	-	-
Short term bank debt	58,775	15,017	43,758	-	-	-	-	-
Other	30,604	17,734	6,690	1,447	1,332	1,681	566	1,154
Totals Payments	650,021	131,543	111,030	36,545	44,183	209,622	10,058	107,034

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 financial instruments noted above is due to directly attributable issuance costs in the amount of \$9,023 and \$11,552 as of 31 December 2007 and 2006, 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 more than 60% of its borrowings as fixed rate borrowings. It also 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 31 December 2007, after taking into account the effect of interest rate swaps and caps, approximately 85% of the Company's borrowings are at a fixed rate of interest (2006: 59%).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates adjusting for a 2007 interest rate swap and two interest rate caps in 2006, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	Increase/decrease in basis points	Effect on profit before tax
2007		
USD	+20	(31)
Euro	+10	(1)
Pound Sterling	+20	-
CAD	+20	(9)
USD	-20	31
Euro	-10	1
Pound Sterling	-20	-
CAD	-20	9
2006		
USD ***		(189)
Euro	+20	(22)
Pound Sterling	+20	(4)
USD ***		289
Euro	-20	39
Pound Sterling	-20	4

*** - Historic volatility on certain USD short-term debt varies across a wide range from +/- 10 basis points to +/- 80 basis points. Sensitivities are calculated on the actual volatility for each debt instrument.

See note 21 for loans and borrowings explanations.

At December 31 2007, the Company's interest rate swap had a fair value of \$126. Per the agreement, the Company pays a fixed rate and receive a floating rate based on the 6 month EURIBOR semi-annually. A reasonable sensitivity over the 6 month EURIBOR of +/- 10 basis points yielded an increase/(decrease) to equity of \$463 and \$(121) respectively.

Sensitivity analysis was only necessary for a decrease in interest rate since both of the Company's interest rate caps were at their limit as of 31 December 2006 (See note 31).

Notes to the Consolidated Financial Statements

30. Financial risk management objectives and policies (continued)

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 eliminate 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. 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 75% 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).

	Strengthening/ (weakening) in functional rate	Effect on profit before tax	Effect on equity before tax
2007			
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	—
2006			
US Dollar	+5%	(2,055)	3,221
Euro	+5%	(193)	1,309
Canadian Dollar	+5%	1404	—
US Dollar	(-5%)	2,055	(2,091)
Euro	(-5%)	1,019	(1,470)
Canadian Dollar	(-5%)	(960)	—

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.

	Change in rate	Effect on profit before tax	Effect on equity before tax
2007			
Aluminum	+5%	(263)	735
Nickel	+10%	46	-
Copper	+10%	(62)	-
Aluminum	-5%	263	(735)
Nickel	-10%	(46)	-
Copper	-10%	62	-
2006			
Aluminum	+5%	(203)	247
Nickel	+10%	69	-
Copper	+10%	-	31
Aluminum	-5%	203	(247)
Nickel	-10%	(69)	-
Copper	-10%	-	(31)

Capital management

The primary objective of the Company is to maintain strong capital ratios in order to support its business and maximise 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%.

	2007	2006
Loans and borrowings	116,828	208,045
Related party loans	7,752	15,536
Short-term debt	16,202	53,180
Trade Payables	126,827	93,841
Less Cash and Cash equivalents	172,558	54,610
Net debt	95,051	315,992
Net Debt	95,051	315,992
Total Equity	309,797	(23,741)
Total capital	404,848	292,251
Debt to total capital ratio	0.23	1.08

Notes to the Consolidated Financial Statements

31. 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:

	Note	Carrying Amount	2007 Fair Value	Carrying Amount	2006 Fair Value
Interest rate caps/swaps	30	126	126	459	459
Commodity forward contracts	30	77	77	790	790
Foreign exchange forward contracts	30	3,573	3,573	1,199	1,199
Notes receivable	35	7,068	7,068	925	925
Cash and cash equivalents	18	172,558	172,558	54,610	54,610
Related party debt	22	7,752	7,752	15,536	15,536
Fixed rate loans and borrowings	21	116,694	125,486	131,952	137,997
Floating rate loans and borrowings	21	134	134	76,093	79,042
Commodity forward contracts	30	1,531	1,531	38	38
Foreign exchange forward contracts	30	3,541	3,541	1,265	1,265
Short term debt	23	16,202	16,202	53,180	53,180

The carrying value of trade and other receivables and trade and other payables approximates fair value due to their short term nature. The carrying amount of related party debt approximates fair value due to the fact that the lending entities use a standard 11% interest rate for borrowings. The majority of borrowings have occurred in the past two years and are all based on the 11% rate. The floating rate loans and borrowings approximate fair value because they are based on current market rates.

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 €65 million. See note 21. 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 forecasted 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 31 December 2007, the fair value of the interest rate swap was \$126.

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. This contract provides for a payment by the counterparty if the six-month LIBOR interest rate exceeds 5% on each determination date (every six months starting on 1 April 2006). The contract expires in 2008. Management has designated the interest rate cap as a cash flow hedge of the forecasted interest payments on the debt. As such, any payments received under the contract are offset against Metallurg's interest expense on the Class B Notes. This interest rate cap was liquidated in August 2007 contemporaneously with the debt extinguishment in the US. See note 21. Upon liquidation, the Company recognized a \$361 gain. At 31 December 2006, the fair value of the interest rate cap was \$301.

Sudamin entered into two interest rate caps in April 2005 with a notional value of €8.5 million (approximately \$11,217 at 31 December 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 and have a maturity of three years. These caps were liquidated in September 2007 when the debt that they were hedging was paid off. See note 21. A gain was recognized on this liquidation in the amount of \$165. At 31 December 2006, the fair value of the interest rate caps was \$158.

Cash flow hedges were deemed highly effective and unrealized gains on the cash flow hedges amounted to \$126 and \$122 in the years ended 31 December 2007 and 2006, respectively. During the years ended 31 December 2007 and 2006, \$0 and \$90, respectively, were reclassified to the income statement as offsets 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 31 December 2007 are as follows:

	Metric Tons	Average price	Fair value
US Dollar denominated contracts to purchase commodities:			
Aluminium forwards	7,400	\$2,538	(1,488)
Nickel forwards	50	\$7,575	(43)
US Dollar denominated contracts to sell commodities:			
Aluminium forwards	1,025	\$2,832	32
Copper	50	\$7,610	45

31 December 2006 are as follows:

	Metric Tons	Average price	Fair value
US Dollar denominated contracts to purchase commodities:			
Aluminium forwards	2,825	\$2,660	\$514
Nickel forwards	12	11,608	271
Copper forwards	50	6,627	(19)
US Dollar denominated contracts to sell commodities:			
Aluminium forwards	1,075	2,814	(19)
Nickel forwards	12	34,570	5

Cash flow hedges were deemed to be highly effective and unrealized gains/(losses) on cash flow hedges amounted to \$(1,454) and \$638 in the years ended 31 December 2007 and 2006, respectively. During the years ended 31 December 2007 and 2006, \$1,425 and \$1,703 were reclassified 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 forecast sales and purchases. 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 three fair value hedge contracts during 2007.

The open foreign exchange forward sales contracts as at 31 December 2007 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
Fair Value Hedges				
Euro (versus US Dollar)	€75.0 million	1.436	–	(1,869)
Cash Flow Hedges				
Euro (versus US Dollar)	€25.0 million	1.421	51	(1,419)
US Dollar (versus Euro)	\$59.8 million	1.397	2,782	
Economic Hedges				
US Dollar (versus Euro)	\$31 million	1.408	484	(18)
Euro (versus Canadian Dollar)	€12.0 million	1.401	227	(95)

Notes to the Consolidated Financial Statements

31. Financial instruments (continued)

The open foreign exchange forward sales contracts as at 31 December 2006 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
Cash Flow Hedges				
Euro (versus US Dollar)	€11.3 million	1.302	313	(323)
US Dollar (versus Euro)	\$26.0 million	1.301	559	-
Economic Hedges				
US Dollar (versus Euro)	\$43.8 million	1.305	356	(11)
Euro (versus Canadian Dollar)	€3.4 million	1.500	-	(119)
US Dollar (versus Canadian Dollar)	\$26.4 million	1.123	-	(812)

The open foreign exchange forward purchase contracts as at 31 December 2007 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
Cash Flow Hedges				
Euro (versus US Dollar)	€1.5 million	1.364	-	(116)
US Reals (versus US Dollar)	R\$ 10.3 million	1.852	29	(24)

Cash flow hedges were deemed to be highly effective in the years ended 31 December 2007 and 2006. Unrealized gains on cash flow hedges amounted to \$1,592 and \$144 in the years ended 31 December 2007 and 2006, respectively. During the years ended 31 December 2007, \$134 was reclassified to the income statement as an increase to cost of sales. In the year ended 31 December 2006, \$2,208 was reclassified to the income statement as an increase to cost of sales.

32. 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. Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

Non-cancellable operating lease rentals are payable as follows:

	2007	2006
Less than one year	8,650	7,621
Between one and five years	24,428	20,338
More than five years	12,619	5,323
	45,697	33,282

During the year ended 31 December 2007 \$9,158 was recognized as an expense in the income statement in respect of operating leases (2006: \$6,386).

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:

	2007	2006
Less than one year	265	20
Between one and five years	427	44
Total minimum lease payments	692	64
Less amounts representing finance charges	(40)	(5)
Present value of minimum lease payments	652	59

33. 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 31 December 2007, the Company had committed to capital requirements in the amount of \$4,306 (2006: \$7,450).

34. 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 31 December 2007 and 2006:

	Business-related guarantees	Credit-related guarantees	Letters of Credit	Total
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
2006				
Total Amounts Committed:	46,351	6,655	6,220	59,226
Less than 1 year	32,825	6,655	522	40,002
2 - 5 years	6,859	-	-	6,859
After 5 years	6,667	-	5,698	12,365

Environmental

As discussed in note 26, 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 26) which assumes that the Company will be able to remediate the pile using a long-term control license. However, this alternative may be 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. In addition, SMC received a letter in December 2007 from the US Environmental Protection Agency naming it as one of nine potentially responsible parties at a contamination site in New Jersey. The Company does not believe that it is responsible for the contamination at this site. The total cost of remediation, which has already been completed, is \$4,900 so the maximum liability of the Company is \$544. 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.

Litigation

During 2006, Timminco was subject to a US Department of Commerce (DOC) scope inquiry to determine whether Timminco's product, exported from Canada into the US, was covered by anti-dumping orders on magnesium from China and Russia. On 1 September 2006, the DOC released a preliminary finding which indicated that Timminco's products were not covered by the anti dumping orders on magnesium from China and Russia and on 9 November 2006, the DOC released a final ruling in this matter which confirmed their preliminary findings.

In addition to the anti-dumping inquiry discussed above and the environmental matters, which are discussed above and in note 26, 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.

Notes to the Consolidated Financial Statements

35. 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 benefits and perquisites from this 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 31 December 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	139	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

For the year ended 31 December 2006	Salaries and Bonus (a)	Post-employment benefits including contributions to defined contribution plans	Other remuneration	Total
Dr. Heinz Schimmelbusch	1,313	49	9	1,371
Arthur Spector	1,187	13	5	1,205
Eric Jackson	900	136	18	1,054
Dr. Reinhard Walter	817	36	–	853
William J. Levy	587	11	8	606
Total	4,804	245	40	5,089

(a) In the year ended 31 December 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 2007 for Dr. Schimmelbusch and Mr. Spector was \$98 and \$90, respectively.

Other transactions with key management personnel

As at 31 December 2007, Directors of the Company, through their management company, control 27% of the voting shares of the Company. 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 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 related entities on an arm's length basis.

Loans and receivables

See note 22 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 all of which was outstanding as at 31 December 2006. At 31 December 2007, approximately \$2,253 was outstanding under these loans and an additional amount of

approximately \$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 31 December 2007, GfE Medical owes approximately \$1,230 to the Company. GfE Medical has not made scheduled payments on this receivable but the Company has received a letter from Safeguard that Safeguard will reimburse the loan.

ALD has also entered into a series of loan agreements with ALD International LLC, a subsidiary of Safeguard, in 2005 and 2006. The aggregate amounts owed to ALD by ALD International LLC as of 31 December 2007 and 31 December 2006 were \$0 and \$6,335, respectively. These loans have interest rates of 11%. All loan agreements had short term due dates which were prior to 31 December 2006. However, each loan also granted the borrower the ability to prolong the repayment using prolongation agreements which are in place currently.

On 10 September 2007, Timminco loaned Fundo, its 47.1% owned equity affiliate, \$1,899 to assist Fundo with its working capital requirements. This loan is due 31 December 2010, bears interest at three month NIBOR plus 4% and is to be repaid in installments commencing 30 September 2009. The loan is secured by a charge against Fundo's land, buildings and equipment and is subordinate to Fundo's bank debt. The loan is convertible into shares of Fundo at Timminco's option at Fundo's book value on the date the loan was granted or on the date of conversion at Timminco's option. The conversion of this loan is restricted such that Timminco cannot exceed ownership of of 49.9% of Fundo through the conversion of this loan.

On 12 December 2007, Timminco loaned Fundo, its 47.1% owned equity affiliate, \$2,671 to assist Fundo with its working capital requirements. This loan is due 31 December 2010, bears interest at three month NIBOR plus 4% and is to be repaid in installments commencing 30 September 2009. The loan is secured by a charge against Fundo's land, buildings and equipment and is subordinate to Fundo's bank debt. The loan is convertible into shares of Fundo at Timminco's option at Fundo's book value on the date the loan was granted or on the date of conversion at Timminco's option.

Other transactions

Metallurg Holdings Inc. currently has its headquarters located in office space leased by Safeguard International. Beginning 1 January 2006, Metallurg 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 year ended 31 December 2007 and 2006, Metallurg paid \$96 and \$98 to Safeguard, respectively for its portion of costs related to the building. Amounts due to Safeguard at 31 December 2007 and 2006 were \$0 and \$15, respectively.

All outstanding balances with these related parties are priced on an arm's length basis. None of the balances are secured.

36. Subsequent events

On 12 February 2008, Timminco loaned Fundo, its 47.1% owned equity affiliate, \$1.8 million to assist Fundo with its working capital requirements. This loan is due 31 December 2010, bears interest at three month NIBOR plus 4% and is to be repaid in installments commencing 30 September 2009. The loan is secured by a charge against Fundo's land, buildings and equipment and is subordinate to Fundo's bank debt. The loan is convertible into shares of Fundo at Timminco's option at Fundo's book value on the date the loan was granted or on the date of conversion at Timminco's option. The majority owner of Fundo agreed to use its best efforts to participate in the financing. In the event that they do not participate in their prorate share of the financing by 30 April 2008, the conversion price for Timminco's loan becomes 10% of the book value per share of Fundo. Under this circumstance, the aggregate ownership of Fundo by Timminco is capped at 66.5%.

On 14 March 2008, Timminco, the majority shareholder of Fundo and one of Fundo's other lenders converted debt of NOK 61.8 million to common shares of Fundo. After the conversion of this debt, Timminco's ownership percentage of Fundo decreased from 47.1% to 45.3%.

Although subject to required regulatory approvals and other conditions precedent, on 18 March 2008, a wholly owned subsidiary of the Company signed a share purchase agreement to acquire 62.3% interest in Graphit Kropfmuehl AG ("GK") for consideration of €32.7 million. Again subject to regulatory approval, it is the subsidiary's intent to launch a voluntary public tender offer for the remaining outstanding shares in GK at the €18.25 per share price agreed upon with the majority shareholders. This transaction is expected to be completed during the second quarter of 2008. GK produces silicon metal and mines, processes and refines natural graphite at production sites in Europe, Asia and Africa. As of 28 March 2008, the Company's wholly-owned subsidiary has also acquired 10.8% of GK for €5.6 million.

On 26 March 2008, the Company announced that its wholly-owned subsidiary, Bécancour Silicon Inc. ("BSI"), had entered into an agreement to supply solar grade silicon to a European customer. Under the terms of the agreement, BSI will supply 410 metric tons (mt) in 2008 and 3,200 mt in 2009 at fixed prices. The agreement provides for an extension to 2013, of up to 6,000 mt per annum, to be negotiated between the parties. The price for these possible further supplies will be negotiated contingent upon market conditions.

Parent Company Financial Statements

Balance Sheet

As at 31 December 2007

In thousands of USDollars

	Note	2007	2006
Assets			
Investments in subsidiaries	2	156,425	-
Loans due from subsidiaries	2	102,221	-
Total non-current assets		258,646	-
Trade and related party receivables	8	13,056	-
Loans due from subsidiaries	2	104,501	-
Prepayments	3	175	218
Cash and cash equivalents	4	5,751	59
Total current assets		123,483	277
Total assets		382,129	277

Equity

Issued capital	5	722	59
Share premium	5	392,304	-
Foreign currency translation	5	150	-
Other reserves	5	(10,073)	-
Retained earnings (deficit)	5	(137,439)	-
Total equity attributable to shareholders of the Company		245,664	59

Liabilities

Provision for negative participation	2	119,583	-
Total non-current liabilities		119,583	-
Trade and other payables	7	1,928	218
Loans due to subsidiaries	6	11,488	-
Amounts due to subsidiaries	6	1,597	-
Derivative financial instruments		1,869	-
Current taxes payable		-	-
Total current liabilities		16,882	218
Total liabilities		136,181	218
Total equity and liabilities		382,129	277

Income Statement

For the year ended 31 December

In thousands of USDollars

	2007	2006
Income (loss) from subsidiaries, after taxes	11,870	-
Other income and expenses	(166)	-
Net income	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.

2. Financial fixed assets

Investments in Subsidiaries

The movement in subsidiaries was as follows:

	Investment in subsidiaries	Provision for Negative Participation	Total
Balance at 31 December 2006	-	-	-
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 31 December 2007	36,842	-	36,842

Reclassification for provision for negative participation:

provision for negative participation	119,583	(119,583)	-
Balance at 31 December 2007	156,425	(119,583)	36,842

Loans due from subsidiaries

	Non-current loans due from subsidiaries	Current loans due from subsidiaries	Total
Balance at 31 December 2006	-	-	-
Loans	98,136	103,610	201,746
Currency translation adjustment	4,085	891	4,976
Balance at 31 December 2007	102,221	104,501	206,722

Amounts are loaned to subsidiaries primarily to finance operations and working capital. Non-current loans are due from a German subsidiary. The loans have a terms of two years, are due in March and September 2009 and have an interest rate of 7%. Current loans are due from several subsidiaries in Europe and the United States. Loans in the amount of \$12,302 are due on March 31 2008 and loans with a balance of \$2,000 are due upon request. The remainder of the current loans are due on December 31 2008. All current loans have an interest rate of 6.77%.

Parent Company Financial Statements

3. Prepayments

Prepayments recorded in the balance sheet at 31 December 2006 represented amounts related to the costs of a planned initial public offering of the Company's shares. These represent incremental costs that are directly attributable to the equity transaction that would have otherwise been avoided. Upon completion of the initial public offering, these costs will be shown as a deduction from equity. At 31 December 2007, these costs primarily represent prepaid insurance for the Company.

4. Cash and cash equivalents

Bank balances earn interest at floating rates based on daily bank deposit rates.

5. Capital and reserves

	Shareholders Equity					Total
	Issued capital	Share premium	Foreign currency translation reserve	Other reserves	Retained deficit	
Balance at 1 January 2006	-	-	-	-	-	-
Issuance of shares	59	-	-	-	-	59
Balance at 31 December 2006	59	-	-	-	-	59
Balance at 1 January 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 31 December 2007	722	392,304	150	(10,073)	(137,439)	245,664

At 31 December 2007, the Company's authorised share capital was comprised of 100,000,000 ordinary shares (2006: 1,000) with a nominal share value of €0.02 (2006: €100). At 31 December 2007, the issued and outstanding share capital was comprised of 26,903,087 ordinary shares (2006: 450), with a nominal value of €0.02 (2006: €100) which were fully paid.

MDHC contribution

On 29 March 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 2 April 2007 the Company issued 254 Shares to The Lanigan Trust dated 8 March 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 29 March 2007 the Company issued 2,129,186 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 29 March 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 26 June 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.

In anticipation of the Annual General Meeting's adoption of the annual accounts, it is proposed that the net income for 2007, amounting to \$11,704, be allocated to retained deficit.

6. 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 Euro 7 million and Euro 0.7 million. The Euro 7 million loan bears interest at 7% and is due upon request. The remaining loan bears interest of 11% and this loan is due upon the grantor's request.

7. 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 8.

8. 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

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, \$228 remains outstanding at 31 December 2007 and is expected to be paid in the first half of 2008. At 31 December 2006, \$0 was outstanding from related parties.

9. Employees

At 31 December 2007, the Company had 10 employees (2006: nil).

10. 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.

March 28 2008

Management Board

Heinz Schimmelbusch
Arthur Spector
William Levy
Eric Jackson
Reinhard Waller

Supervisory Board

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

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 2007 and that the 2007 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 2007 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 2007, 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 2007, 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 2007, 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 2007, 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 e 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 28 2008
for Ernst & Young Accountants

/ s / A.J.M. van der Sanden

Shareholder Information

Supervisory Board

Pedro Pablo Kuczynski, Chairman
Remuneration Committee

Andrei Bougrov
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



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