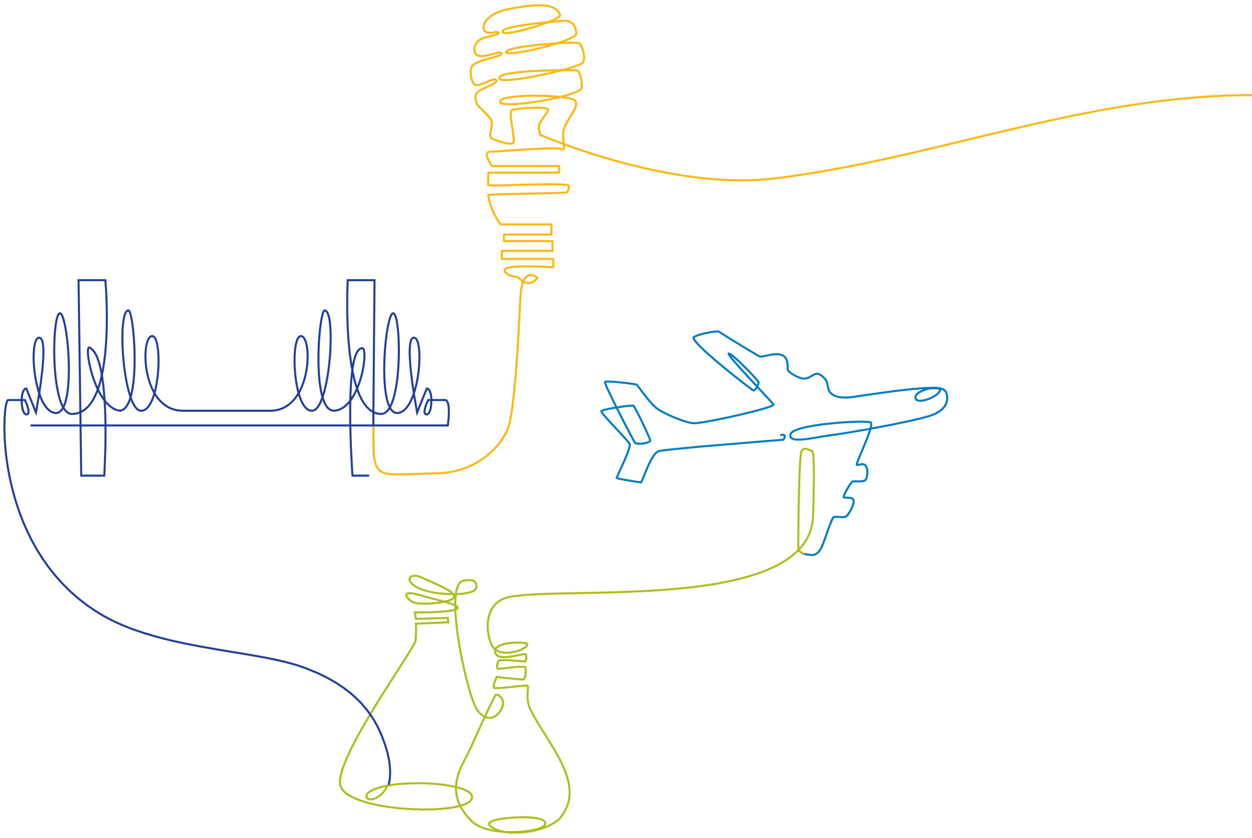
AMG Advanced Metallurgical Group N.V.
Annual Report 2009

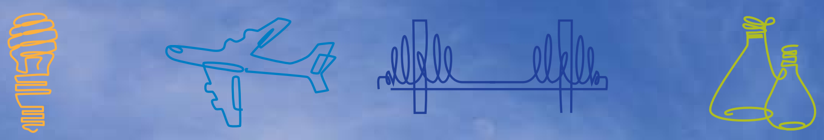


connected metallurgy

connected by a singular focus

Whether it's a team in Germany designing vacuum furnaces to produce titanium for the aerospace industry, a group in the United States recycling hazardous waste to create alloys to improve structural steels or a facility in the Czech Republic producing fine-milled graphite for use in state-of-the-art batteries, everyone at AMG is focused on a single goal: providing innovative metallurgical solutions to reduce global CO_2 emissions.

AMG is focused on the global macroeconomic trend of sustainable development of natural resources for growing markets



energy | aerospace | infrastructure | specialty metals and chemicals

Advanced Materials

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

Engineering Systems

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

Graphit Kropfmühl FRA:GKR

GK is an 79.5% owned publicly-listed subsidiary of AMG. GK produces silicon metal and is a vertically integrated producer of natural graphite.

Timminco TSX:TIM

Timminco Limited is a publicly-listed company of which 42.5% is owned by AMG. Timminco is a leader in the production of silicon metal.

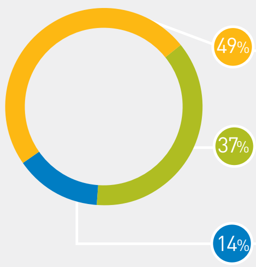
Financial Highlights

(in millions)

REVENUE $	GROSS PROFIT $	EBITDA $
867.4	165.6 Margin 19%	69.1 Margin 8%

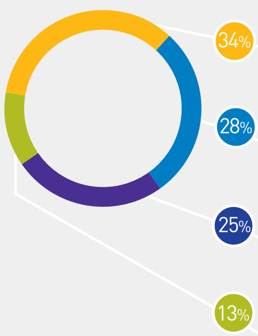
CASH $	117.0
DEBT $	203.8
NET DEBT $	86.8

Consolidated Revenue 2009 (in millions)



Advanced Materials	$429.1
Engineering Systems	$320.5
Graphit Kropfmühl	$117.8

Revenue by End Market 2009 (in millions)



Energy	$294.6
Aerospace	$220.5
Infrastructure	$108.0
Specialty Metals & Chemicals	$244.3

Operational Highlights

AMG creates and applies innovative metallurgical solutions to the global trend of sustainable development of natural resources and CO_2 reduction. To this end, the Company focuses on the growing end markets of: Energy, Aerospace, Infrastructure, and Specialty Metals and Chemicals.

Advanced Materials: Entered into a long-term contract to supply advanced titanium aluminides for next generation jet engine compressor blades to a global aerospace engine producer.

Improved operational performance:

- Reduced SG&A expenses from 2008
- Reduced production to match lower levels of demand and generated $20.0 million in free cash flow, before growth capital investment
- Established an aluminum master alloy production facility in China which delivered a profit in the first year of operation
- Expanded the Division's Brazilian mine and installed a pilot plant for the production of lithium concentrates as part of a multi-mineral resource production plan.

Engineering Systems: Expanded the nuclear energy business by completing the engineering for 60% of the US Department of Energy MOX (mixed oxides) project for the conversion of weapons grade plutonium into fuel for nuclear reactors and achieved key developmental milestones for the Impermeable Graphite Matrix (IGM) used in the long term storage of nuclear waste.

Generated 20% EBITDA margin, despite challenging market conditions, by reducing personnel costs by approximately 17% and expanding in-house production to produce a wider variety of vacuum furnaces.

Invested in research and development projects for aerospace turbine blade casting technology in cooperation with an independent research centre associated with the Technical University of Aachen, Germany.

Publicly listed investments:

Graphit Kropfmühl AG: Reorganized the natural graphite business by consolidating natural graphite production locations to increase operating efficiencies.

Timminco Limited: Refocused its business on its core metallurgical silicon operations while suspending solar grade silicon production, but continuing to focus on improving product quality.

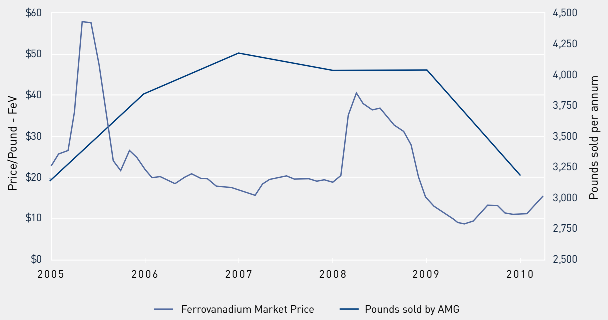
Dear Shareholder,

AMG is managing two portfolios, one is the production of specialty metals and alloys (Advanced Materials), and the other portfolio consists of proprietary technologies for the design and engineering of vacuum furnaces and related equipment used in the production and treatment of metals and alloys (Engineering Systems). To a large extent these two portfolios service the same end-markets: energy, aerospace, and infrastructure.

AMG's growth potential is based on the growth of these end markets and our quest to be a technology leader in whatever we do. In times of an unprecedented economic crisis, as in 2009, AMG is impacted by the downturn in metal prices and volumes and capital equipment expenditures. Metal prices and capital equipment orders are the first to be negatively impacted in a downturn. However, AMG's two portfolios react differently, in terms of earnings and cash flow, and that provides a stabilizing effect on the Company as a whole.

Following a record performance in 2008, AMG entered 2009 with order inflow in some units literally coming to a standstill. Accordingly, in 2009 AMG's revenues fell by 32% and EBITDA by 58%. Advanced Materials was hit by the global crisis in two ways, falling metal demand resulting in production curtailments, and collapsing market price levels. Due to a drop in the demand for steel used in infrastructure and aerospace applications, the sales volume of ferrovanadium, vanadium aluminum and vanadium oxide decreased by 21%, 70% and 32%, respectively. The prices for these products fell by 64%, 74% and 68% on a year-to-year basis. Fortunately the production levels and the prices of other portfolio metals fell much less. In total, Advanced Materials' revenues were $429 million, a 43% decline from 2008. The Division's EBITDA fell to breakeven; however it generated $20 million in free cash flow, (before growth capital investment) as net working capital was reduced significantly.

In 2009, Engineering Systems' revenues fell to $321 million from $435 million and EBITDA to $63 million from $96 million. As expected, the EBITDA margin was essentially maintained. While the backlog provided an earnings stabilizer, the Division's cash flow was only slightly positive. That was the result of falling order inflow and the reduction in advanced payments.



The two Divisions, therefore, counterbalanced each other in both earnings (Engineering Systems providing a stabilizer) and cash flow (Advanced Materials providing a stabilizer).

Focus on Cost and Liquidity

SGA was reduced by $12 million or 8% compared to 2008 (after adjusting for a one-time pension gain and a normalization of GK's ownership to 12 months). This was achieved through a combination of personnel reduction and elimination of non-essential items; however, we did not reduce costs which are related to technology development efforts. Capital expenditures were substantially reduced. At year end, total liquidity stood at $197 million.

Managing Volatility

Advanced Materials is characterized by high volatility of metals prices set by global markets, while Engineering Systems' volatility is driven by markets for capital goods and by prices for components. An important management objective is to reduce the volatility of earnings and cash flow below the levels implied by these forces. We manage volatility in two ways, by adjusting our business models and by achieving cost leadership. For example, the Advanced Materials' aluminum master alloy unit is structured as a conversion business where the metal is a "flow through" and the revenues are negotiated conversion premiums. In our vanadium recycling unit, we receive recycling fees which are not dependent on metal prices and we share the end market metal volatility with our recycling clients.

Volatility is less harmful when one is the industry cost leader. We have achieved this situation in tantalum, where the by-product credits offset a significant portion of the mining costs of the main product. In 2009 we also made progress in certain raw material contracts with the target to eliminate or substantially reduce the risk of inventory write downs as experienced in ferrovanadium at the end of 2008.

In Engineering Systems, we improved our value chain position by selectively producing furnace system components in our own low-cost plant in Berlin. This "in-sourcing" reduces the risk of bottlenecks in the supply-chain, as partially was the case in 2008 with certain components for solar crystallization furnaces. We are expanding the in-sourced content to include the complete product range such as vacuum induction melting furnaces, vacuum arc, and electro slag remelting furnaces, electron beam furnaces, turbine blade coating plants and heat treatment equipment. This increases ability to control manufacturing costs and protect intellectual property.

End Market Focus

AMG's growth potential is aligned with the long-term forecasted growth of the Company's most important end markets: energy, aerospace, and infrastructure. We service the energy market through solar crystallization furnaces, thin-film components, and metallurgical grade silicon for solar applications; furnace systems for the nuclear fuel cycle; and material science solutions for stationary turbine development. We work on energy saving strategies in the automotive industry through new coatings to reduce friction in combustion engines. We service the aerospace industry with new light weight materials such as titanium aluminide and with furnace and casting technology for next generations of lower weight aerospace engines. The increasing trend of building infrastructure in emerging economies and rebuilding infrastructure in mature economies drives the growth of our high performance alloys for structural steel products.

Innovations

The need for Clean Energy is driven by the increased awareness in our society of the critical importance of energy efficiency, energy saving, and the necessity to minimize negative environmental effects of energy production. The primary impetus of government regulations is the increasing concentration of CO_2 in the atmosphere. We expect subsidies for Clean Energy to continue and the regulations forcing CO_2 reductions will be tightened even if the science of climate change is still in its infancy. We continuously optimize our portfolio to capitalize on these energy related trends.

So far we have developed two technologies in the solar industry: (1) a product line of solar crystallization furnaces, a market we entered as a newcomer around 2006. We continuously improve our furnace offering, for example, by increasing the crucible size; (2) a solar grade silicon product as alternative feedstock for crystallization at Timminco. The initial success of both initiatives was substantial; in 2008 AMG sold over 200 crystallization furnaces and Timminco sold over 1000 tons of solar grade silicon material.

lithium is expected to continue to rise driven by the growth of the electric car battery market.

In addition to the energy related trends, the other major relevant trend for our metals and technology portfolio is the growing need for infrastructure investments, both in new infrastructure in emerging economies and for upgrading infrastructure in mature economies. This is the important driver for the use of ferrovanadium, ferrotitanium and ferronickel-molybdenum in structural and stainless steels. We produce these materials from secondary sources using proprietary recycling technologies. We are an environmental leader in this field and are improving productivity through a more comprehensive and environmentally safe solution for the processing of metal containing residues from power plants and refineries. At our recycling operation in Ohio, USA, we operate a process which allows the direct recovery of

We aspire to be an industry leader through continued innovation, improving cost efficiency and focusing on our end markets to achieve stable profitability levels above industry average.

In our fast-growing nuclear unit we provided engineering services to the Shaw Areva MOX Services LLC, South Carolina, USA, for the building of a mixed oxide facility (MOX) production facility to convert weapons grade plutonium into fuel for light-water reactors. We are broadening our product line for annealing furnace technology used in the production of fuel elements and heat exchangers with active markets in Russia, China, and the USA. We filed several patents for an "industrial" treatment solution (as opposed to a simple "storage" solution) for various kinds of nuclear waste. This solution is based on embedding nuclear waste in multiple layers of coatings using natural graphite based materials, among others.

Advanced Materials signed the first long-term contract for the delivery of a new light weight alloy, titanium aluminide, to be used in fan blades of the next generation jet engines. We anticipate a substantial long-term growth in demand for this product driven by the necessity of weight reduction. At our Brazilian tantalum and niobium mine, we have started two pilot plants, one for the production of lithium concentrates, the other for kaolin. Based on estimated reserves, that mine may contain one of the largest known lithium mineral deposits in the world. The demand for

both ferrovanadium and ferronickel-molybdenum alloys and also generates a saleable calcium aluminosilicate by-product. As a result, there is no liquid waste from the process, a major achievement in comparison with solutions employing hydrometallurgical process steps. In addition, we estimate that our process uses 40% less energy than a primary mining operation for vanadium.

Publicly Listed Investments

As of December 31, 2009 AMG owned 42.5% of Timminco, a producer of silicon metal and solar grade silicon in Canada (TSX:TIM) and 79.5% of Graphit Kropfmühl (FRA:GKR), a producer of silicon metal in Germany and an integrated producer of natural graphite. AMG's ownership in Timminco was reduced in 2009 as a result of the issuance of new shares to customers in order to settle liabilities relating to approximately C$30 million in deposits that Timminco received in 2008 under solar grade silicon supply contracts.

At year end 2008, the western solar industry suddenly interrupted its path of high growth followed by an inventory buildup. Spot polysilicon prices collapsed. The market for solar grade silicon, Timminco's new product, came to a halt with the exception of continuing test programs to optimize the quality. Spot prices of polysilicon fell from above $300,000/ton to below $60,000/ton. To add to Timminco's challenges, its silicon metal capacity had been largely used to support the expected growth of the solar grade silicon production and virtually no contracts with silicon metal customers were in place. Therefore, in the first half of 2009, Timminco's silicon metal production had to be temporarily suspended.

In a comprehensive turnaround strategy, Timminco: (1) completed an extraordinary marketing effort for silicon metal, enabling it to resume full production by the end of 2009 and has essentially sold out all of its 2010 silicon metal capacity; (2) realized that the strategy of selling solar grade silicon through a "discount price – discount quality" offering was no longer feasible in the new environment with radically lower polysilicon prices; (3) negotiated settlements for substantially all of its advanced payments received from customers through the issuance of shares; (4) received outstanding support from its senior lender in the form of flexible ways to handle its covenants; (5) received a C$25 million subordinated term loan from the government of Quebec; and (6) raised $43 million in equity and convertible debt instruments, in 2009, of which AMG invested $34 million.

In the meantime the market for silicon metal has improved and experts predict a positive price development in the medium term. We believe in the value inherent in Timminco silicon metal business and in the upside of its solar grade silicon once market conditions improve.

Social Responsibility

In these challenging trading conditions, we believe it is even more important to balance our economic priorities with global environmental and social challenges through being part of the solutions to those challenges. In connection with our financial goals, we have three sustainable development objectives: to be responsible stewards of the environment; to meet or exceed regulatory standards and to be a valued contributor to the local economy and community. AMG actively monitors its performance and has not set its measures of sustainability success in isolation. In 2009 we joined The United Nations Global Compact, Extractive Industries Transparency Initiative (EITI), and became Organizational Stakeholders with The Global Reporting Initiative (GRI) as we aim to lead, not follow in this area. Part of being an effective environmental steward is demonstrating measurable results. Among our achievements in 2009, were lower water usage, on a unit produced basis, primarily achieved through water recycling and reduced waste disposal tonnages, achieved through recycling and beneficial reuse initiatives. The Company is also focused on energy management. Many of our products and services are used to improve energy efficiencies for end users as explained earlier. Health and safety performance remains extremely important in all we do. We continue to work toward our goal of no lost time accidents among our global work force. This year we have also demonstrated our social responsibility by codifying our ethics policy and instituting mandatory online training to reinforce the priority of ethical business practices.

Corporate Governance

Finally a word on Corporate Governance. In this Annual Report we give full account of the governance structure of our Company. In addition we will provide full transparency and insight in our compliance with the new Corporate Governance Code (as amended in 2008). The Company fully supports the principles and spirit of the Corporate Governance Code.

Outlook

Our strategic objectives have not changed. We aspire to be an industry leader through continued innovation, improving cost efficiency and focusing on our end markets to achieve stable profitability levels above industry average. In 2010, AMG's objective is to exceed 2009 revenue, EBITDA, and cash flow. In the first quarter of 2010, prices for key specialty metals such as ferrovanadium have increased. Spot prices of silicon metal have firmed. In general, 2010 production targets exceed 2009 actuals. Cost cutting efforts are ongoing. Although the backlog of Engineering Systems fell sharply in 2009 to $162 million at year end, we expect stabilization and a slight recovery in the second half of 2010. A positive impact in 2010 will come from our nuclear engineering unit. We will continue to look for opportunities to strengthen our competitive position through industry consolidation initiatives with the caveat that such initiatives cannot be accurately predicted.

Dr. Heinz C. Schimmelbusch
Chief Executive Officer

A History of Growing Connections

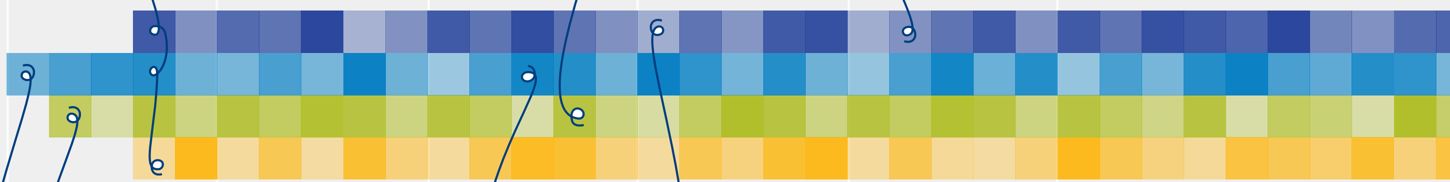
1910 1920 1930 1940 1950 1960

← ALD
ALD traces its roots back to several predecessor companies founded in Germany in the mid-1800s

1916
ALD's predecessor company enters field of vacuum metallurgy, melting chromium nickel alloys under vacuum conditions

1938
LSM (United Kingdom) is established as a producer of specialty metals and alloys including ferrotitanium and chromium metal

1952
Vanadium business founded in Ohio, USA

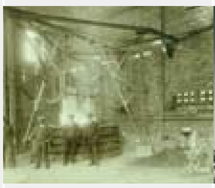


1911
GfE (Germany) founded as a producer of specialty metals and alloys including tungsten, molybdenum and ferrovanadium

1912
CIF (Brazil) founded as a tantalum and niobium mining operation

1934
Sudamin (France) formed as a metal producer

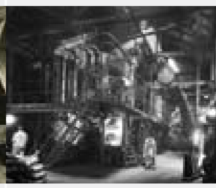
1940
Metallurg, Inc. is incorporated in the USA



1913
GfE electric arc furnace

1920
GfE facility

1930
GfE metal crushing



1945
GfE furnace room

1952
GfE V2O5 melting furnaces

1960
GfE chrome metal production

1970 1980 1990 2000

1971
ALD's predecessor company introduces nuclear fuel sintering furnace

1985
GfE expands activities to produce titanium master alloys

2000
ALD acquires turbine blade coating business

2002
Ohio-based vanadium business signs a long-term spent catalyst supply contract to solidify its recycling based business model

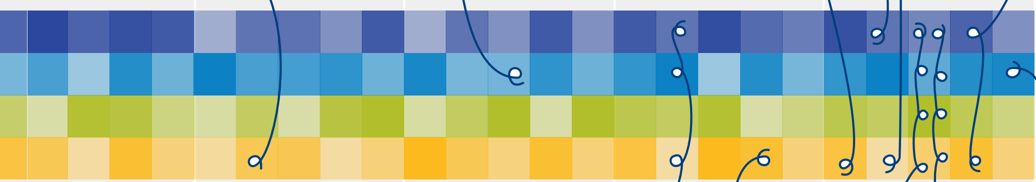
2002
ALD introduces an advanced modular heat treatment system to the market

2008
AMG ESD invests in a designer of sintering systems for nuclear applications

AMG AMD coating material activities further expanded into rotatable targets for photovoltaic applications via acquisition

AMG acquires controlling interest in Graphit Kropfmühl AG, a publicly listed German producer of graphite and silicon metal

AMG AMD Ohio-based vanadium business expands vanadium production capacity



1994
Leybold-Durferrit spins off its vacuum furnace division to form ALD

1997
ALD develops solar silicon remelting furnaces

2006
AMG is formed

2007
AMG IPO-Amsterdam Euronext

AMG ESD insources production of solar silicon vacuum furnaces to a plant in Berlin, Germany

2009
AMG AMD signs its first long term contract to supply titanium aluminide to jet engine producers

1971
ALD nuclear fuel sintering furnace

2000
ALD Modultherm heat treatment system

2006
AMG ESD solar crystallization furnace

2008
AMG ESD Electron Beam Titanium melting furnace system

AMD = Advanced Materials Division

ESD = Engineering Systems Division

Infrastructure

Aerospace

Specialty Chemicals & Metals

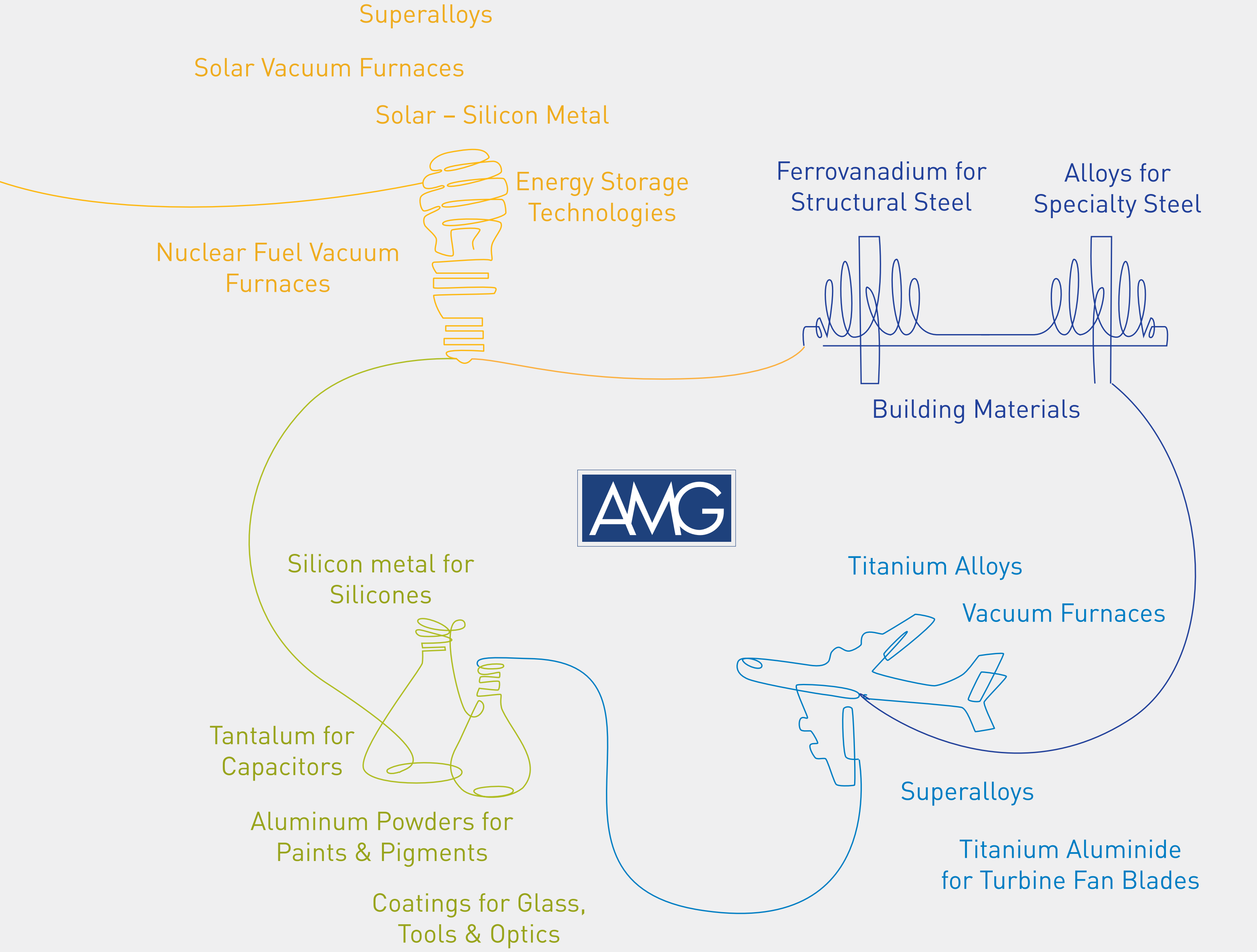
Energy

AMG is focused on the global macroeconomic trend of sustainable development of natural resources for the growing energy, aerospace, infrastructure and specialty metals and chemicals markets.

Throughout its history, AMG's predecessor companies have applied metallurgical based technologies to provide solutions for industrial challenges. AMG continues that proud tradition today. AMG is uniquely positioned as a leader in vacuum furnace solutions for high purity metals and is also a producer of specialty alloys and metals used to improve the performance and characteristics of their end products. AMG applies this knowledge to help meet the growing demand for energy and resource conservation in the development of advanced applications in the aerospace, energy, infrastructure and specialty metals and chemicals industries.

Despite recent economic challenges, AMG remains focused on long term structural changes involving infrastructure growth in emerging economies, natural resource scarcity, increasing demand for safe, secure and environmentally responsible energy production and a demand for more fuel efficient transportation.

The resources required to meet the rising global consumption of energy, aerospace and infrastructure investment while reducing greenhouse gas emissions AMG believes will result in increases in specialty metal usage over the long term. AMG seeks to be vertically integrated in many of its metals and chemical resources, in order to secure raw material supply and reduce volatility over the long term.


Superalloys
Solar Vacuum Furnaces
Solar – Silicon Metal
Energy Storage Technologies
Nuclear Fuel Vacuum Furnaces
Ferrovanadium for Structural Steel
Alloys for Specialty Steel
Building Materials
AMG
Silicon metal for Silicones
Titanium Alloys
Vacuum Furnaces
Tantalum for Capacitors
Aluminum Powders for Paints & Pigments
Superalloys
Titanium Aluminide for Turbine Fan Blades
Coatings for Glass, Tools & Optics

$22 trillion in investment will be needed in energy-supply infrastructure by 2030.

The United Nations forecasts that the global population will grow approximately 40% between now and 2050 to 9.1 billion people[1], an increase of 2.6 billion people, or more than the entire world's population in 1950. Energy demand is expected to grow even faster—an 86% increase by 2050.[2] CO_2 emissions could jump 56% by 2030, leading to an eventual increase in average global temperature of up to 6°C. It is estimated that over "$22 trillion in investment will be needed in energy-supply infrastructure by 2030"[3] in order to compensate for global growth.

energy

End Markets

ADVANCED MATERIALS
- Superalloys for industrial gas turbines
- Coating materials for thin film solar applications
- Energy storage technologies

ENGINEERING SYSTEMS
- Solar vacuum furnaces
- Vacuum melting and precision casting systems for industrial gas turbines
- Vacuum furnaces used to produce nuclear fuels

GRAPHITE KROPFMÜHL
- Energy storage technologies
- Silicon metal for use in polysilicon production for solar cells

TIMMINCO
- Silicon metal for use in polysilicon production for solar cells

AMG is focused on meeting this long-term demand through its commitment to research and development on technology for the safe storage of nuclear waste, vacuum furnaces used in the production of solar silicon ingots and specialty alloys used to help make industrial gas turbines more fuel efficient.

AMG's technologies—capital equipment produced by the Engineering Systems Division for solar and nuclear applications, and specialty alloys and coatings produced by the Advanced Materials Division—are used to increase global energy production while reducing CO_2 emissions. In addition, Graphit Kropfmühl and Timminco produce silicon metal used for the production of polysilicon for the solar energy industry.

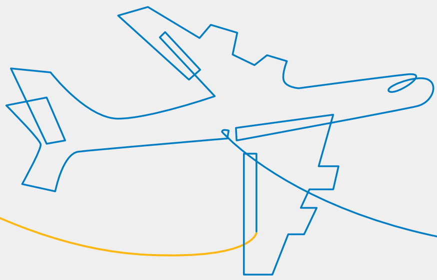
In 2009, AMG's Engineering Systems Division developed the first laboratory stage samples of its Impermeable Graphite Matrix (IGM). This technology is being developed to safely encapsulate nuclear waste, which would enable safe storage of irradiated waste for a geological time frame.

$294.6M	34%	$95.1M	32%
AMG revenue	of total AMG revenue	gross profit	gross margin

1 UN Population Division
2 Energy Information Agency's International Energy Outlook 2009
3 Nobuo Tanaka, Executive Director of the International Energy Agency (IEA), in his key note address to the 11th International Energy Forum (IEF) Rome April 2008

The global aerospace industry is aiming for an additional 25% improvement in fuel efficiency and CO_2 emissions by 2020.[2]

The global aerospace industry is an essential part of an increasingly connected world, with aviation growth projected to be 5-6% per annum for the next twenty years. Global aviation accounts for about 2% of global CO_2 emissions and this figure could rise to 15-20% by the year 2050[1]. To help offset this environmental impact, the global aerospace industry is aiming for an additional 25% improvement[2] in fuel efficiency and CO_2 emissions by 2020, primarily through technological enhancements. One less kilogram of fuel burn reduces CO_2 emissions by over 3 kilograms and a 1% reduction of fuel burn is equivalent to a fuel saving of 250 litres per flight[3].



aerospace

End Markets

ADVANCED MATERIALS
- Titanium alloys
- Superalloys
- Titanium aluminide for turbine fan blades

ENGINEERING SYSTEMS
- Vacuum furnaces for titanium
- Electron beam coating systems for aerospace turbines

Reducing weight is one of the major ways to improve aircraft performance. Lighter and/or stronger materials allow greater range and speed, and also contribute to reducing operational costs. The use of stronger, lightweight materials is an essential part of the enhancements that will help improve fuel efficiency. AMG produces a number of specialty alloys and coatings used to help reduce weight and improve operational performance of aircraft. AMG also develops and produces advanced vacuum furnace systems used to make light weight titanium and other high purity materials used in aerospace applications.

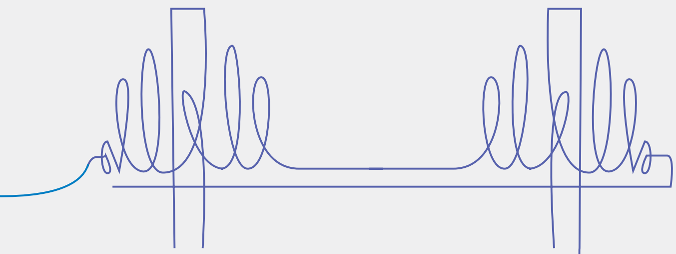
Through extensive research, AMG developed titanium aluminide (TiAl). These gamma titanium alloys offer superior high temperature performance with lower weight for turbine blades and are as strong as nickel-based alloys, but at only half the weight. These alloys will allow for reduced fuel consumption and fewer hazardous emissions, thus reducing the impact on the environment.

$220.5M	25%	$30.0M	14%
AMG revenue	of total AMG revenue	gross profit	gross margin

1 The Committee on Climate Change, September 9, 2009
2 IATA
3 IATA, The IATA Technology Roadmap Report June 2009

Improving existing global infrastructure could lead to as much as $35 trillion in public works spending over the next 20 years[1].

Demand for vanadium, over which 90% goes into steel, is forecast to grow at a compound annual growth rate of 4.9% for the decade ending 2018[2]. This demand will be driven both by an increase in infrastructure expenditures and an increase in vanadium usage per tonne of steel in developing countries. For example, structural steel in China contains only 1/3 of the vanadium per tonne of steel as in North America[3]. As China continues to develop and exports steel, vanadium content should increase to Western standards.



infrastructure

End Markets

ADVANCED MATERIALS
Ferrovanadium for building materials (structural steel)

ENGINEERING SYSTEMS
Vacuum furnaces for specialty steel

GRAPHITE KROPFMÜHL
Graphite insulation

AMG participates in this global economic trend through the recycling of a number of specialty materials including ferrovanadium, ferronickel-molybdenum and production of ferrotitanium and natural graphite.

Through the use of a proprietary, environmentally friendly process, AMG is the largest producer of ferrovanadium in North America and the largest recycler of waste streams used to produce vanadium in the world.

Vanadium, when added to crude steel, creates high strength low alloy steel, a lightweight product extremely high in tensile strength and wear resistance. AMG's advanced technological process recovers these valuable specialty metals from hazardous waste, eliminating the need to landfill this waste. AMG estimates that the energy consumption used to produce recycled vanadium is approximately 60% of primary manufacturing routes.

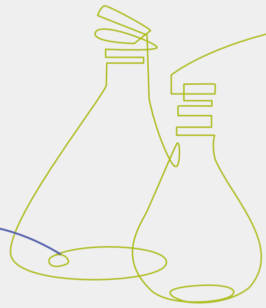
AMG also produces natural graphite, which is used in building materials and improves the insulating performance by up to 20%[4]. This saves heating costs and enhances the value of buildings in an environmentally friendly way.

$108.0M	13%	$13.2M	12%
AMG revenue	of total AMG revenue	gross profit	gross margin

1 Benjamin Tal, CIBC World Markets, January 26, 2009
2 CPM Group statistics, July 2008
3 Evraz Group S.A.
4 BASF AG, Neopour Insulation

Providing sustainable solutions to global challenges.

Specialty metals and chemicals are products that enhance existing products, and are used to create new products that enhance standards of living in the context of sustainable development.



specialty metals and chemicals

AMG produces innovative specialty metals and chemicals for a wide variety of applications utilizing its extensive background and long history in metals based material technologies. AMG focuses on creating intermediate products that enhance the performance of our customers' end products while promoting sustainable development.

Over the last century, AMG's predecessor companies have been developing the "next generation" materials to improve the quality of life and spur innovation. Specifically, AMG has been and will remain focused on producing customized metallurgical solutions that meet the market's exacting demands. Most of AMG's specialty metals impart characteristics to end products that make them better.

AMG's silicon metal products are used to increase the energy efficiency of silicone building materials, while AMG's vertically integrated natural graphite improves electrical conduction in batteries and fuel cells. AMG also produces vanadium based chemicals that improve the insulating and infrared absorbent properties of structural glass and chemical compounds that improve the melting point of enamels used in cookware or electrical housings.

AMG is one of the world's largest producers of tantalum, producing the material used in electronic capacitors from its mine in Brazil. As a member of the Extractive Industries Transparency Initiative (EITI), AMG is dedicated to ensuring responsible prudent use of natural resource wealth that contributes to sustainable development.

End Markets

ADVANCED MATERIALS

Aluminum powders for paints and pigments

Tantalum for capacitors

Coatings for glass, tools and optics

ENGINEERING SYSTEMS

Vacuum systems for high performance materials

GRAPHITE KROPFMÜHL

Silicon metal for silicones and aluminum

Graphite insulation

TIMMINCO

Silicon metal for silicones and aluminum

$244.3M	28%	$27.3M	11%
AMG revenue	of total AMG revenue	gross profit	gross margin

Report of the Management Board

Dr. Heinz Schimmelbusch
Chairman & Chief Executive Officer

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William Levy
Chief Financial Officer

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Eric Jackson
President, Advanced Materials

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Dr. Reinhard Walter
President, Engineering Systems

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

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

Mr. Jackson was appointed President of the Advanced Materials Division and member of the Management Board on April 1, 2007. Mr. Jackson has served in various senior capacities for businesses now owned by AMG since 1996. 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 was appointed President of the Engineering Systems Division and member of the Management Board on April 1, 2007. He has served on the management board of directors of companies in the Division since December 2001, and has served as chairman of the management board of ALD since September 2004. From 1997 to 2001, Dr. Walter acted as Chief Financial Officer and Deputy Chairman of VBH Holding AG, Germany. He was a member of the management board in Berzelius Umwelt-Service AG, a recycler of industrial residues. From 1983 to 1988, he was Managing Director of Uraphos Chemie GmbH, a company operating engineering and recycling services for industrial waste. Dr. Walter received a business administration degree and a doctorate in economics from the University of Saarbrücken, Germany.

Advanced Materials Division

The Advanced Materials Division produces specialty metals, alloys and high performance materials for the energy, aerospace, infrastructure and specialty metals and chemicals end markets.

	2009	2008
Revenue	**$429.1M**	**$756.7M**
EBITDA	**$0M**	**$62.1M**
Free Cash Flow[1]	**$20.0M**	**$51.6M**

In the 2008 Annual Report we stated that 2009 was going to be a challenging year and that the Advanced Materials Division was focused on preserving cash flow by reducing costs, streamlining operations, limiting non-essential capital investments and adjusting production levels to meet reduced demand perspectives.

This business environment prevailed throughout 2009. The Division's 2009 revenues decreased 43% from 2008 to $429.1 million. This was the result of significantly lower volumes and average sales prices for virtually all key products. The Division's customers in aerospace, energy, infrastructure and specialty metals and chemicals reduced purchases to match inventory levels with weak end market demand. Many of the Division's facilities operated at historically low levels of capacity for much of the year. It was necessary to take a number of inventory valuation write-downs as a result of lower prices. Significant lower of cost or market write-downs were taken in 2009 and totalled $7.6 million.

With the historic fall in demand and prices and consistent with the goals stated in the 2008 Annual Report, the Division took aggressive actions to minimize operating losses, maximize cash flow and limit capital investments to high-opportunity projects. As a result of these actions, the Division's operating performance improved each and every quarter of 2009. The Division sequentially improved from a negative EBITDA of $8.4 million in the first quarter 2009 to a positive EBITDA of $5.3 million in the fourth quarter of 2009. The Division generated breakeven full year EBITDA despite the difficult economic environment.

Markets

The Division experienced dramatic declines across all of its end markets. As in 2008, Europe and North America remained the most important markets, with shares in total sales 49% and 27%, respectively. Within Europe, Germany is still the predominant geographic market, accounting for 17% of global sales. The Chinese market grew the fastest in 2009, and now accounts for 6% of global sales. The specialty metals and aerospace markets were the primary end markets, accounting for 77% of total revenues.

Key Achievements 2009

Signed a long term contract with a global aerospace engine producer to supply advanced titanium aluminides for next generation jet engine compressor blades

Established a solar energy project at the Division's Ohio, USA facility that will use solar grade silicon produced by AMG's affiliate, Timminco Limited

Improved operational performance

- Established an aluminum master alloy production facility in China and delivered a profit in the first year of operations
- Reduced normalized SG&A expenses by over 10% from 2008 as production levels were reduced to match lower levels of demand
- Generated $20 million in free cash flow before growth capital investment

Expanded product portfolio

- Expanded the Division's Brazilian mine and installed a flotation pilot plant for the production of lithium minerals as part of a multi-mineral resource production plan

(1) Free cash flow is defined as EBITDA less change in working capital and maintenance capital expenditures

The Advanced Materials Division will continue to maintain a clear focus on cost reduction, produce only to meet demand, and maximize cash flow.

Aerospace

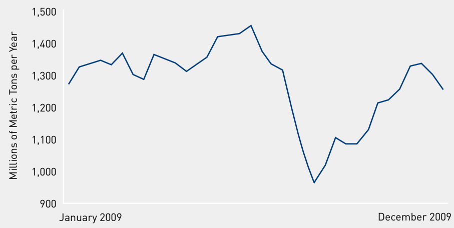
Reduced weight and improved strength of components drive additional demand for high-tech metal alloys to improve fuel efficiency. The Advanced Materials Division's products such as titanium master alloys and high purity materials for super-alloys are used to reduce weight in critical aerospace components. Specifically, the Division produces vanadium aluminum, chromium metal and high purity nickel niobium.

In 2009, the aerospace market was impacted by the delays in the Boeing 787 and Airbus A400M. These "next generation" aircraft use substantially more titanium and lightweight alloys than the predecessor aircraft that they are replacing. As a result of these production delays, the Division's 2009 sales to the aerospace end market decreased by 47% to $84.1 million. Despite a significant decrease in demand, the Division's chromium metal volumes held up reasonably well as AMG outperformed its competitors, despite lower prices and margins. The Advanced Materials Division repositioned these products for lower demand by reducing total staffing levels by approximately 10% by December 2009.

Infrastructure

The need to upgrade existing infrastructure in the developed world and continued development of emerging economies drives demand for structural steel. Despite this, no market was more affected by the global economic crisis than the Infrastructure end market. The Advanced Materials Division produces a number of specialty metals and alloys that are used primarily in structural and stainless steels for infrastructure applications. The Division's major products are ferrovanadium, ferrotitanium and ferronickel-molybdenum. The Advanced Materials Division generated $74.5 million in revenues from this end market, down 63% from the prior year. This dramatic reduction in revenue was most pronounced in ferrovanadium where volumes were down by 21% and average prices were down by almost 65%. The majority of these products are delivered to the North American steel industry, which operated for most of the year at capacity levels in the range of 50% compared to historically operating in the 90% capacity range. These products are significant drivers of the Division's profitability.

Global Crude-Steel Production Rate[1]



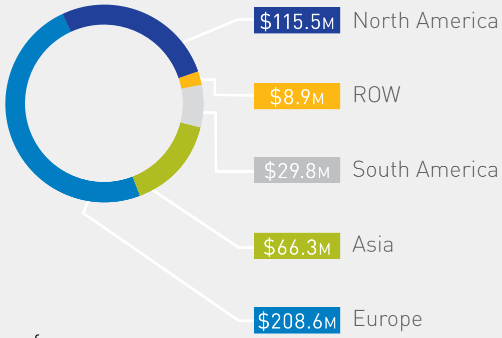
[1] Worldsteel Organization.

An indication of the precipitous fall and steady but tepid recovery in end market demand is illustrated on the chart of global crude-steel production.

Energy

The Advanced Materials Division produces metal based coatings and target materials for photovoltaic end markets and high purity chromium metal products for land based turbines. Demand

Regional Breakdown



in this market is driven by the need for more efficient production of energy and a need to reduce global CO_2 emissions. The Division generated sales of $26.1 million in 2009, a 20% decrease from 2008. The Division was able to offset some of the impact of the global slowdown by increasing its market share in the thin film photovoltaic coating market, offsetting a fall in existing customer demand. Prices were, however, under some pressure resulting in lower overall revenues.

Specialty Metals and Chemicals

The Division produces a number of specialty metals and chemicals used in varied end markets. These markets were uniformly affected by the global economic slowdown. The Division's products for this end market include tantalum oxides primarily used in electronics capacitors, antimony master batches and oxides used as a flame retardant in the chemical industry, and aluminum master alloys and powders used in the aluminum and paint and pigment industries, respectively. The Division generated 2009 sales of these specialty metals and chemicals of $244.3 million, down 33% from 2008. The Division experienced a decline in revenues in essentially all products. To mitigate the impact of this slowdown, the Division reduced headcount and working hours and shifted production of certain products to more efficient production sites.

Outlook

2010 will be a transition year from the recession of 2009 to a more normal 2011. The Division and its customers have endured depressed demand, which was exacerbated by a dramatic reduction of inventories as all participants in the supply chain adjusted to a lower end market demand. These factors were especially significant in the global steel, aluminum and titanium industries, resulting in steep declines in revenue. The recent stabilization of production levels and prices in these industries does, however, support the thesis that the worst has passed. Demand has stabilized, albeit at low levels, and prices have recovered from the lows. 2010 results are expected to improve significantly over 2009 but are not expected to return quickly to the record results of 2008.

The Division will, however, subject to market conditions, pursue a number of expansion and improvement initiatives. These high return projects include the potential expansion of ferrovanadium and ferronickel-molybdenum operations in Ohio, USA and the expansion of Brazilian mining activities to eventually produce up to 60,000 tons of lithium concentrates from spodumene per annum.

The Advanced Materials Division will continue to maintain a clear focus on cost reduction, produce only to meet demand, and maximize cash flow.

End Market Uses

ENERGY

Superalloys for industrial gas turbines

Coating materials for thin film solar applications

Energy storage technologies

AEROSPACE

Titanium alloys

Superalloys

Turbine coatings

INFRASTRUCTURE

Ferrovanadium for building materials (structural steel)

SPECIALTY METALS & CHEMICALS

Aluminum powders for paints and pigments

Tantalum for capacitors

Coatings for glass, tools and optics

Engineering Systems Division

The Engineering Systems Division produces advanced vacuum furnace systems, primarily for aerospace and energy end markets.

	2009	2008
Revenue	$320.5M	$435.5M
EBITDA	$62.9M	$95.6M
Free Cash Flow[1]	$3.3M	$92.4M

Despite the challenging market conditions, the Engineering Systems Division produced solid results in 2009. The Division generated $320.5 million in revenues, down 26% from 2008. EBITDA was $62.9 million, or 20% of revenues. Strong sales in solar directional solidification systems (DSS furnaces), which accounted for 55% of total sales, were offset by a decline in sales of vacuum remelting furnaces used primarily by the aerospace and infrastructure industries. The Division entered 2010 with a backlog of $162.0 million, 51% below the backlog as of December 31, 2008.

Operations

2009 order intake was $183.7 million. DSS furnace orders from the solar market declined in 2009 due to the global economic slowdown and overcapacity in the solar value chain. Orders for remelting systems for titanium production and components for industrial gas turbines also declined but at a slower pace than that of the DSS furnaces. Market indicators are mixed as of year-end 2009. While some aviation-related business showed signs of stabilizing demand, other segments remain significantly affected by the financial crisis. The 2009 book to bill ratio was 57%, primarily driven by weak order intake during the second half of 2009.

Flexibility in the Division's cost structure minimized the impact of the global slowdown. The Division maintains a significant percentage of temporary employees and sub-contractors, and can quickly adjust to changing economic conditions. Through this stringent cost management and personnel cost reduction of 17%, the Division realized a return on capital employed of 93.6%.

The Division's tolling-based heat treatment services continued to be negatively impacted by the downturn in the automotive industry. The Company consolidated its South Carolina, USA operation into its Michigan, USA facility. Management expects that future growth and positive cash flow will result from the increasing demand for more fuel efficient vehicles that utilize the high tech transmission and fuel injection components that the Division heat treats.

Key Achievements 2009

Continued expansion of nuclear energy business:

- 60% of US Department of Energy MOX Services engineering project finalized
- Integrated nuclear sintering furnace producer FNAG Furnaces Nuclear Applications Grenoble S.A.S., France
- Achieved development milestones for samples of Impermeable Graphite Matrix (IGM) for the long term storage of nuclear waste
- Signed a letter of intent to acquire a 30% interest in TIV Thermique Industrie Vide, France, a producer of annealing furnaces for nuclear applications.

Generated a 20% EBITDA margin despite challenging market conditions by:

- Reducing direct personal costs by approximately 17%
- Expanding in-house production facility to produce a wider variety of vacuum furnaces

Initiated research and development projects for casting technology in cooperation with Access, an independent research centre associated with the Technical University of Aachen in Germany

(1) Free cash flow is defined as EBITDA less change in working capital and maintenance capital expenditures

The research and development program continued to focus on improving the performance of established furnace systems and gaining access to new markets such as electron beam technologies for the aerospace industry.

Markets

Demand decreased in most segments in 2009 as compared to 2008. The decline in demand from the energy market—particularly the solar industry—was substantial. While the demand from titanium producers declined slightly, this market segment still provides opportunities for further growth. As in 2008, Asia and Europe were the most important markets with shares of total sales of 56% and 32%, respectively. Within Asia, the Chinese market is the primary engine for growth, however the Indian market grew the fastest in 2009, albeit from a relatively low level. Demand in aerospace and energy were the impetus for this growth, driven by government programs to address energy shortages. North America represented 13% of the market with the aerospace industry as the primary end market.

Aerospace

Weight reduction of components is the primary driver for high-tech metallurgical equipment to improve fuel efficiency. As a result, demand for lightweight titanium and titanium alloys is increasing as fuel efficiency becomes more important. The Engineering Systems Division provides a complete line of furnaces to produce, purify and recycle titanium and titanium alloys. In 2009, the Division substantially increased its market share in China, particularly for vacuum arc remelting furnaces used to process titanium.

The Division also won a significant contract for thermal barrier coating equipment for jet engines. The Division is the dominant supplier of this advanced coating equipment for major producers worldwide. The Division expects that demand for these coating systems and vacuum casting furnaces will intensify as the build rates for the Airbus A350 and the Boeing 787 increase.

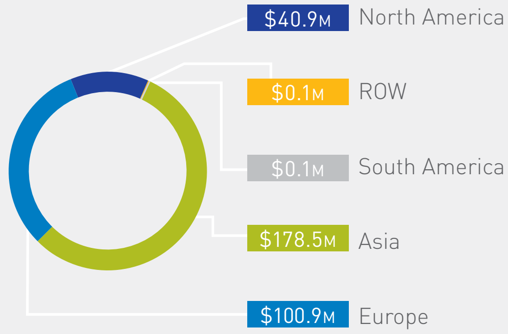
Energy – Solar and Power Generation

The Engineering Systems Division produces a variety of vacuum furnaces for specialty steels and superalloys used for power generation. Sales of DSS solar furnaces accounted for 55% of total 2009 revenues, up from 46% in 2008. Despite this increase in sales, order intake for solar furnaces declined by 86% due to the decrease in capital investment in the solar industry. Lower government incentives in Germany and customer financing difficulties dramatically reduced demand for solar cells and resulted in delays in new orders. In the fourth quarter of 2009, however, the Division began to experience renewed customer interest. The Division expects to see an increase in demand for solar and other energy end market furnace systems in 2010, but returning to pre-financial crisis levels will take more time.

Energy – Nuclear

In 2009, the Division entered into a letter of intent to acquire a 30% minority interest in TIV Thermique Industrie Vide, France, a market leader in annealing vacuum furnaces for nuclear fuel applications. This will expand the Division's nuclear product portfolio. The Division

Regional Breakdown



completed the majority of the engineering for the Shaw AREVA MOX nuclear fuel fabrication facility in the United States. This facility will recycle weapon grade plutonium and produce fuel elements for light water reactors. Work on the production of the relevant nuclear fuel furnaces will begin in the second quarter of 2010. Based upon the growing interest in nuclear energy, the Division is well positioned to increase revenues from nuclear customers.

The Division continues development of the Impermeable Graphite Matrix (IGM) technology to allow for the long term safe storage of radioactive waste. Initial IGM products have delivered promising results, which will be substantiated with additional testing.

Production

While the Division continues to outsource a portion of its production, the internal production facilities in Germany have enabled the business to efficiently and quickly implement changes in the product portfolio. As the product portfolio was optimized to reflect the changing economic circumstances, the number of internally produced furnaces increased in 2009. This process will continue in 2010, with the goal of further reducing production costs.

New Product Development

The Division conducts application-specific research and development in cooperation with its major customers. During 2009, the Division developed new features for vacuum investment casting for the aerospace industry. The Division also implemented quality improvements to its DSS furnaces and created single-piece-flow heat treatment technology for the automotive industry.

The research and development program is focused on improving the performance of established furnace systems and gaining access to new markets such as electron beam technologies for the aerospace industry.

Outlook

While the Division completed 2009 with an order backlog substantially below year-end 2008 levels, it has experienced a significant increase in requests for quotation during the fourth quarter of 2009. Despite this increase in activity, conditions in the engineering sector and the financial markets remain challenging. While geographic diversification and the portfolio of end markets for the Division's products will mitigate some of the current economic challenges, order intake is expected to remain sluggish in the first half of 2010. The Division continues to adjust to this environment through rigid cost management and production flexibility.

End Market Uses

ENERGY

Solar vacuum furnaces

Vacuum furnaces used to produce nuclear fuels

Vacuum melting and precision casting systems for industrial gas turbines

AEROSPACE

Vacuum furnaces for titanium

Electron beam coating systems for aerospace turbines

INFRASTRUCTURE

Vacuum furnaces for specialty steel

SPECIALTY METALS & CHEMICALS

Vacuum systems for high performance materials

Publicly Listed Investments

AMG has two publicly-held investments: Graphit Kropfmühl is a majority controlled, publicly listed subsidiary that produces high purity silicon metal and natural graphite, Timminco Limited is a publicly listed affiliate of AMG that produces silicon metal.

Graphit Kropfmühl

	2009	2008 (8 months)
Revenue	**$117.8M**	**$87.9M**
EBITDA	**$6.3M**	**$7.6M**
Free Cash Flow[1]	**$10.8M**	**$10.4M**

Key Achievements 2009

Reorganized natural graphite business:

- Consolidated the natural graphite production locations to improve operating efficiencies
- Mr. Martin Ebeling, CEO of Graphit Kropfmühl, assumed direct operational responsibility for the natural graphite business

AMG acquired Graphit Kropfmühl ("GK") in May 2008 AMG's 2008 results only include eight months beginning on the date of the acquisition. In 2009, GK generated full year EBITDA of $6.3 million on $117.8 million of revenue. Like AMG's Advanced Materials Division, GK's performance, particularly in the natural graphite unit, was adversely affected by the slowdown in global economic activity. To meet these challenges, GK reduced costs and invested in efficiency capital improvements.

Silicon Metal

GK produces 30,000 mt of metallurgical grade silicon metal and by products annually and a by product of amorphous silicon dioxide from its facility in Germany. GK's silicon metal products are used in the solar, chemical and aluminum industries. In 2009, GK generated $84.3 million in revenues from metallurgical grade silicon. Increases in demand from the solar and chemical industries offset a decrease in demand from the aluminum industry.

Natural Graphite

GK's graphite division extracts and refines natural graphite into high quality graphite with purities up to 99.99% carbon. GK's high purity natural graphite products are used in the infrastructure industry for their heat resistance and in the chemical and transportation industries for their electrical conductivity. In 2009 GK generated $33.5 million in revenues from natural graphite.

Outlook

The metallurgical silicon division expects that growth will continue to be driven by demand for silicon for the solar industry. GK will continue to adapt to current market conditions through rigid cost management and production flexibility.

GK has completed the reorganization of its natural graphite business, consolidating production locations in the Czech Republic. This market will remain challenging for the near term as the global economy continues it slow rebound.

(1) Free cash flow is defined as EBITDA less change in working capital and maintenance capital expenditures

Timminco Limited

2009

Balance sheet value of AMG's investment in Timminco **$19.5M**

Timminco produces metallurgical grade silicon for the chemical, aluminum, electronic and solar industries. During 2009, Timminco refocused its business on its core metallurgical silicon operations due to a drop in demand for its solar grade silicon. Challenging market conditions in the end markets for metallurgical grade silicon led to a decrease in revenues and production in 2009. Market demand began to return in the second half of 2009 and Timminco was operating at its capacity of 48,000 mt in the fourth quarter.

AMG owned 42.5% of Timminco's common equity as of December 31, 2009. AMG's ownership decreased in 2009 as a result of Timminco's issuance of additional common shares from the conversion of customer liabilities into equity. As it owned less than 50% of Timminco at year end, AMG accounted for its investment in Timminco via the equity accounting method. The carrying value of AMG's investment in Timminco of $19.5 million is reported as an asset on AMG's balance sheet.

Key Achievements 2009

- Restored silicon metal operations to full production based on improved market demand
- Continued development of solar grade silicon, while suspending production in the short term
- Completed multiple capital transactions to strengthen balance sheet
- Completed divestiture of magnesium business

Risk Management and Internal Controls

Risk Management Approach

The global economic downturn experienced during 2009 has accentuated the importance of developing and implementing a comprehensive risk management program. AMG employs a traditional approach to risk management, including a 'top-down' and 'bottom-up' analysis and assessment of the Company's risks. Numerous lines of property and liability insurance coverage are also an integral part of AMG's risk management program.

AMG has implemented a comprehensive risk management program centered on the Company's Risk Assessment Package ("RAP"). The RAP is a detailed document requiring each business unit to:

(i) identify potential risks and quantify the impact of such risks;

(ii) prioritize the risks using a ranking system to determine the impact, likelihood and suddenness of occurrence;

(iii) describe the risk mitigation or transfer procedures in place; and

(iv) document the periodic monitoring of the risks.

Each business unit undertakes a full review of its RAP on a quarterly basis. The RAPs are then reviewed in detail by AMG's Risk Manager in coordination with the operating managers of the business units. Key risks from all business units are then summarized and presented to the Management Board. Individual risks of special note are discussed at the Management Board's bi-weekly meeting. The Management Board has the responsibility to inform the Supervisory Board of the most significant risk exposures and the related risk management plans in place. The Audit Committee of the Supervisory Board will carry out a semi-annual review of the Company's internal control and risk management systems.

As in previous years, AMG's Management Board and operating managers of business units evaluated the Company's risk management activities during 2009. Additionally, for the first time, the Company's Internal Audit Director was in place for the full calendar year.

During 2009, special attention was given to:

(i) liquidity management;

(ii) credit facility amendments;

(iii) Code of Business Conduct training; and

(iv) Information Technology improvements.

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, 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, compliance with credit facility covenants, currency fluctuations, liquidity, refinancing, budgeting, metal price and currency hedging, treasury and tax functions
- Legal and Regulatory: includes risks related to the political, environmental, legislative, and corporate governance environment

AMG, like most industrial companies, faces a combination of risks. The largest risks faced by the Company evolve throughout each calendar year and cannot be viewed as static challenges. It is not the intention to detail each risk posed to AMG in this report, but the most pertinent risks to the business are described below.

Customer Risk

The tightening of global credit markets has exposed AMG to an increased risk of customer default and non-payment of accounts receivable. The relative lack of available financing options can cause rapid deterioration of a customer's ability to fulfill payment obligations. Larger customer concentrations in particular business units exacerbate the importance of monitoring customer risk. AMG has insured its accounts receivable where economically feasible and has set credit limits on its customers, which are closely tracked. In addition to constant monitoring from business unit leaders, AMG's Management Board reviews accounts receivable balances on a monthly basis. As a result of the collection of prepayments from most of its customers, the Engineering Systems Division mitigates a portion of customer payment and performance risk.

Metal Price Volatility Risk

AMG is exposed to risk in the prices of certain metals. Risk can arise from changes in price between purchase, process and sale of the metals or from end-price risk for metals when raw materials are purchased under fixed price contracts. Most metals AMG processes and sells, such as chromium metal, tantalum, graphite, ferrotitanium and antimony trioxide, cannot be hedged on an exchange. To mitigate price risk for these metals, AMG seeks to enter into complementary raw material supply agreements and sales agreements whereby the price is determined by the same index. AMG also attempts to time its raw material purchases with sales orders from customers. Further mitigation comes from establishing low-cost long positions in key raw materials through ownership positions in mining activities (tantalum, niobium, graphite, quartz), through structured long-term supply contracts (in ferrovanadium and ferronickel-molybdenum), or long-term fixed price sales contracts. Despite this mitigation, AMG retains some exposure to price volatility, most significantly in vanadium. Success of the mitigation plans is dependent on the severity of metal price volatility and counterparties performing under their contracts. The Company hedges exchange-traded metals, such as aluminum, when possible. In its aluminum business, AMG also sells conversion services with no metal price risk.

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, including countries that have some amount of political risk. In order to mitigate the risk of supplies becoming difficult to source, AMG enters into longer-term contracts with its suppliers when practical. AMG's Engineering Systems Division is dependent on a limited number of suppliers for many of the components of its vacuum furnace systems as a result of its stringent quality requirements. To mitigate this risk, the Engineering Systems Division has insourced the production of its DSS furnaces for the solar industry to a production facility in Berlin, Germany. The production scope of the Berlin facility is being expanded to other types of furnaces.

If availability of AMG's supplies or components is limited, the Company can suffer from reduced capacity utilization. This could result in fewer economies of scale and higher per unit costs. If AMG is not able to pass on its increased costs, financial results could be negatively impacted.

Financing Risk

The current economic downturn has restricted AMG's access to debt and equity capital markets. A prolonged restriction on accessing the capital markets and additional financing may negatively affect AMG's ability to fund future innovations and capital projects. The Company's bank facility matures in August 2012. As of December 31, 2009, AMG's Senior Leverage as calculated by its credit facility was 1.45x, compared to a covenant maximum of 2.00x. In order to preserve the Company's financial flexibility and ability to take advantage of market opportunities, AMG reached an agreement to amend its credit facility in March 2010 to increase its Senior Leverage covenant to 3.00x. The Total Leverage covenant remained unchanged at 3.75x. AMG's financing risk is also mitigated by its year-end 2009 liquidity of $197 million.

Entrepreneurial Risk

The continued growth of AMG's business requires the development of new products and new production processes. Developing and investing in these products and processes involves the acceptance of certain measured entrepreneurial risks. As competitors copy successful technologies or develop new methodologies, AMG must continue to innovate in order to maintain leading positions in its strategic niches. During a time of economic uncertainty, it is particularly important to strike an appropriate balance between investment in innovation to secure future growth versus the need to preserve cash to withstand an economic crisis. The complete abandonment of entrepreneurial initiatives, however, may threaten the viability of the Company when economic stability returns. For this reason, AMG management evaluates more than the projected internal rate of return or the discounted cash flows of a potential project. AMG also examines the consequences of declining projects and the possibility of lost cash flows from the inability to innovate.

In addition to looking at the inherent risk on a project-by-project basis, AMG also evaluates the risk of a portfolio of projects being undertaken or developed in the pipeline. Evaluating a project within a portfolio of opportunities allows AMG to better manage its liquidity and capital allocation. While certain projects may be beneficial and profitable in the long run, timing of cash flows is critically important as AMG always seeks to maintain sufficient liquidity to operate its existing businesses. Managing entrepreneurial risk requires active management. Frequent Management Board meetings enable the senior executives of AMG to stay informed of all the latest information, allowing for quick action, further reducing risk.

AMG's highly educated and skilled workforce contributes greatly to AMG's entrepreneurial success. High employee turnover or loss to a competitor of key personnel, many of whom possess specific technical knowledge, is a risk to AMG. Many incentives, financial and other, are used to maintain a motivated workforce.

Currency Risk

AMG's largest currency risk exists where it incurs an imbalance in revenues and costs in a particular currency. While the single largest sensitivity of this nature exists for the Euro, risk also exists with the British Pound and Brazilian Real. AMG may enter into currency hedges to mitigate this risk. AMG also faces currency risk when it enters into a fixed price contract to sell a product in one currency while the costs incurred are in an alternate currency. AMG typically enters into currency hedges to mitigate this currency timing risk.

Legal and Regulatory Risk

Like all companies, AMG is exposed to the changing regulatory environment in the countries and regions where it conducts business. The most notable changes are coming in the form of environmental policy. New environmental regulations or a change in regulatory bodies that have jurisdiction over AMG products and facilities could result in new restrictions, including those relating to the storage or disposal of legacy material at AMG owned properties, which may result in significantly higher costs to AMG (see note 38 to the Consolidated Financial Statements). The environmental regulations that are responsible for the growth in AMG's business, however, may present operational challenges to AMG's manufacturing processes. More stringent regulations may be enacted for the release of air emissions, wastewater discharge or solid waste, which may negatively impact AMG's operations. Additionally, the REACH Directive became effective in the European Union in June 2007. REACH requires new operational procedures regarding the registration, evaluation and authorization of chemical substances and AMG's business units are actively engaged in the registration processes for their products from 2010 forward.

See note 38 to the Consolidated Financial Statements for information regarding legal matters affecting the Company.

AMG has continuing obligations to comply with government regulations and practices concerning corporate organization and corporate governance. For example, in addressing possible conflicts of interest affecting its Management or Supervisory Board members, AMG follows strict rules of procedure. These procedures are described in the Company's Articles of Association and the rules of procedure of the Management Board and Supervisory Board, respectively.

Compliance with both legal and regulatory matters is further augmented by the Company's General Counsel who makes use of the services of several prominent global law firms.

Information Technology Risk

AMG is dependent on effective and reliable IT systems that are not currently fully integrated among all business units. Failure of IT systems or major loss of key data could substantially impair AMG's financial condition and results of operations. Therefore, AMG devises and implements procedures to protect data, applications, systems, networks and physical resources. Both internal and external analyses of weaknesses, risks and threats are executed and audited to ensure that IT security measures are implemented efficiently. Special attention has been paid to logical access, change management and business continuity. Furthermore, guidance has been strengthened by distributing additional policies and procedures throughout the Company. This ongoing process should ensure that amendments and improvements (such as continued migration toward an integrated worldwide IT system) are constantly made to the IT systems.

Risk Monitoring and Procedures

AMG has a strategic risk function that monitors and establishes internal controls to mitigate business and financial risks. AMG's strategic risk function is complemented by its internal audit function. As a newer public company, the controls and procedures at AMG may not be as developed as other public companies with much longer operating histories. Through the risk reporting system, the 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 Pursuant to the Dutch Corporate Governance Code

Risks related to financial reporting include timeliness, accuracy and implementation of appropriate internal controls to avoid material misstatements. During 2009, the Management Board conducted an evaluation of the structure and operation of the internal risk management and control systems. The Management Board discussed the outcome of such assessment with the Supervisory Board (in accordance with best practice provision III.I.8). AMG's Management Board believes internal risk management and control systems in place provide a reasonable level of assurance that AMG's financial reporting does not include material misstatements. In relation to AMG's financial reporting, these systems operated effectively during 2009.

Management Board Statement of Responsibilities

The Management Board hereby declares that, to the best of its knowledge, the consolidated financial statements prepared in accordance with IFRS and Title 9 of Part 2 of the Netherlands Civil Code provide a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and that the management report includes a fair review of the development and performance of the business of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Management Board
AMG Advanced Metallurgical Group N.V.

Heinz Schimmelbusch
William Levy
Eric Jackson
Reinhard Walter

March 31, 2010

Supervisory Board

Pedro Pablo Kuczynski
Chairman
71

Wesley Clark
65

Martin Hoyos
62

Jack L. Messman
70

Norbert Quinkert
67

Guy de Selliers
57

	Male/US and Peru Date of birth: October 3, 1938 Date of initial appointment: June 6, 2007 Date of end of term: 2011	Economist and Investment Banker Partner, The Rohatyn Group Current board positions, Agualimpia NGO (Chairman), The Taiwan Greater China Fund (Chairman), Westfield Capital/First Capital Investment Bank, Ternium Inc. Former positions: Prime Minister of Peru and First Boston International (Credit Suisse) (Chairman)
	Male/US Date of birth: December 23, 1944 Date of initial appointment: June 6, 2007 Date of end of term: 2013	Consultant and Advisor, Wesley K. Clark & Associates Current board positions, EWT B.V., Bankers Petroleum Ltd., Prysmian S.R.L., Magnum Jet (Chairman), Rodman and Renshaw LLC (Chairman), Juhl Wind, Inc., United Global Resources, Inc. (Chairman), BNK Petroleum, Inc. Former position: NATO Supreme Allied Commander, Europe
	Male/Austria Date of birth: October 27, 1947 Date of initial appointment: May 13, 2009 Date of end of term: 2013	Corporate Director Current board positions, KPMG Germany AG, Prinzhorn Holding AG, CAG Holding GmbH Former positions: CEO KPMG Europe, Middle East and Africa
	Male/US Date of birth: March 13, 1940 Date of initial appointment: June 6, 2007 Date of end of term: 2013	Corporate Director Current board positions, Celerant Consulting, Radio Shack Corporation, Safeguard Scientifics, Inc., Telogis, Inc. (Chairman), Timminco Limited Former positions: Chief Executive Officer, Novell, Inc. and Union Pacific Resources Corporation
	Male/Germany Date of birth: January 18, 1943 Date of initial appointment: June 6, 2007 Date of end of term: 2010	Consultant Quinkert Herbold Fischer Executive Search GmbH Current board positions, PFW Aerospace GmbH, VTION AG (Vice Chairman), WISTA Management GmbH (Chairman) Former position: Motorola (Germany, Austria, Switzerland and The Netherlands) (Chairman)
	Male/Belgium Date of birth: June 14, 1952 Date of initial appointment: June 6, 2007 Date of end of term: 2010	Corporate Director Chairman, Hatch Corporate Finance Current board positions, Solvay SA, Wimm-Bill-Dann Foods OJSC, Wessex Grain, Fortis Group Former position: Robert Fleming and Co. Limited, Eastern Europe (Chairman)

Report of the Supervisory Board

Powers of the Supervisory Board

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

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

Composition of the Supervisory Board

The Supervisory Board was first established on June 6, 2007, and currently consists of six members. Messrs. Pedro Pablo Kuczynski (Chairman), Jack Messman (Vice Chairman), Guy de Selliers, Norbert Quinkert, General Wesley Clark and Martin Hoyos.

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

All Supervisory Board members qualify as independent as defined in the Dutch Corporate Governance Code as amended in 2008.

All members of the Supervisory Board completed a questionnaire to verify compliance in 2009 with the applicable corporate governance rules and the rules governing the principles and practices of the Supervisory Board.

The Resignation Schedule of the Supervisory Board is as follows:

Pedro Pablo Kuczynski	2011
Wesley Clark	2013
Jack Messman	2013
Norbert Quinkert	2010
Guy de Selliers	2010
Martin Hoyos	2013

Mr. Quinkert and Mr. de Selliers will resign by rotation from the Supervisory Board at the Annual General Meeting of Shareholders on May 12, 2010. Both Mr. Quinkert and Mr. de Selliers are eligible for immediate reappointment for a period of four years. The Supervisory Board proposes the reappointment of Mr. Quinkert and Mr. de Selliers. A nomination for their appointment will be submitted to the 2010 Annual General Meeting of Shareholders.

Supervisory Board Meetings

The Supervisory Board held ten meetings in the course of 2009, including meetings by telephone conference. Six of these meetings were held in the presence of the Management Board. Almost all meetings were attended by all members. None of the members of the Supervisory Board was frequently absent from Supervisory Board meetings. The items discussed in the meetings included recurring subjects, such as AMG's financial position, objectives and results, strategy, potential acquisitions, business plans of the Advanced Materials (AMD) and Engineering Systems (ESD) Divisions, capital expenditure programs, succession planning, operations review as well as regular review of the strategic initiatives of the Company and the Company's ongoing actions in the field of Corporate Social Responsibility. Financial metrics presented to the Supervisory Board to measure the performance of AMG include net income, earnings per share, EBITDA, financial leverage (net debt to EBITDA), debt to equity, return on shareholders' equity and return on capital employed. Furthermore, the Supervisory Board discussed the risks of AMG's business and the assessment by the Management Board of the structure of the internal risk management and control systems, as well as any significant changes thereto. The regularly scheduled Supervisory Board meetings also included presentations by senior managers of the business lines to give Supervisory Board members a more in-depth understanding of the businesses. In addition to the scheduled meetings, the Chairman and other members of the Supervisory Board had regular contact with the Chief Executive Officer and other members of the Management Board as well as senior executives of the Company throughout the year.

On November 10, 2009 the Supervisory Board (without the presence of the Management Board) met and reviewed the performance of the Management Board and its members.

At this meeting, the Supervisory Board also evaluated its own functioning and that of the three committees and their members. In doing so, the Chairman of the Supervisory Board had invited each member of the Supervisory Board to provide his comments on these topics to the Chairman. The Chairman then shared the main conclusions drawn from such comments with his fellow Supervisory Board members in a plenary private session of the Supervisory Board. During that session the Supervisory Board unanimously concluded that the Supervisory Board was functioning adequately and that the Supervisory Board's composition was well balanced in terms of competence, nationality, age and experience. During that session, the Supervisory Board also expressed its desire to increase its diversity in terms of gender, but also acknowledged that given the particular industries in which the Company is operating, suitable candidates with different gender may be difficult to identify and select.

Remuneration Supervisory Board

In its meeting of May 13, 2009, the General Meeting of Shareholders amended the remuneration of the members of the Supervisory Board with effect from January 1, 2009. The members of the Supervisory Board receive remuneration in the form of a cash component and a share component. No loans, guarantees or the like have been granted to any of the Supervisory Board members.

Cash remuneration: The cash remuneration of the Supervisory Board members as determined by the General Meeting of Shareholders was set at $95,000 for the Chairman, $70,000 for the Vice Chairman and $60,000 for the other members. Chairmen of the Remuneration Committee, the Audit Committee and the Selection and Appointment Committee are paid an additional $20,000 annually.

Share remuneration: The members of the Supervisory Board do not participate in any of AMG's incentive plans. As part of their annual remuneration in 2009, the General Meeting of Shareholders authorized the issue of a number of shares for no cash consideration to each member of the Supervisory Board as part of their remuneration.

The number of shares issued to each member is computed with respect to a specified amount of Euros for each member. During 2009 the specified numbers of Euros were €49,400 for the Chairman, €34,200 for the Vice Chairman and €30,400 for each other member. Mr. Hoyos received pro-rata compensation.

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

The Dutch Corporate Governance Code requires that the remuneration of a Supervisory Board Member not be dependent on the results of the Company. Best practice provision III.7.1 states that a Supervisory Board member may not be granted any shares and/or rights to shares by way of remuneration. AMG does not comply with best practice provision III.7.1 and III.7.2 for reasons further explained below under the chapter Corporate Governance (page 55).

The table below shows the total remuneration of each member of the Supervisory Board for 2009. One member of the Supervisory Board, Mr. Martin Hoyos, was appointed at the Annual General Meeting and received pro-rata compensation.

FOR THE YEAR ENDED DECEMBER 31, 2009	ROLE	CASH REMUNERATION	SHARE REMUNERATION	# OF SHARES GRANTED
Pedro Pablo Kuczynski	Chairman and Member	$ 95,000	€ 49,400	10,927
Jack L. Messman	Remuneration Committee Vice Chairman & Remuneration Committee Chair	$ 90,000	€ 34,200	7,565
Wesley Clark	Member	$ 60,000	€ 30,400	6,724
Norbert Quinkert	Member & Selection and Appointment Committee Chair	$ 80,000	€ 30,400	6,724
Guy de Selliers	Member & Audit Committee Chair	$ 80,000	€ 30,400	6,724
Martin Hoyos	Member	$ 33,600	€ 16,467	3,642

Shares Held by Members of the Supervisory Board

As of December 31, 2009, the members of the Supervisory Board held a total of 80,944 shares in the Company. Out of that number, a total of 47,564 shares were awarded to them during 2007, 2008 and 2009 as part of their annual remuneration.

Remuneration Supervisory Board in 2010

The remuneration of the members of the Supervisory Board in 2010 will not change as compared to the remuneration given in 2009 as explained above.

Committees

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

Audit Committee

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

The Audit Committee is responsible for, among other things, considering matters relating to financial controls and reporting, internal and external audits, the scope and results of audits and the independence and objectivity of auditors as well as the Company's process for monitoring compliance with laws and regulations and its Code of Business Conduct. It does monitor and review the Company's audit function and, with the involvement of the independent auditor, focuses on compliance with applicable legal and regulatory requirements and accounting standards. The Audit Committee met three times during the year in addition to its meetings to review and approve annual and interim financial reports and statements of the Company and reported its findings periodically to the plenary Supervisory Board. Topics of discussion at the meetings included IT infrastructure, the Internal Audit plan, the Audit Committee Charter, an enterprise risk management system, insurance, environmental risk situation, Code of Business Conduct training program, foreign currency exposure and hedging policies, tax structuring and spending approval matrices. Ernst & Young Accountants LLP also provided the audit committee with a mid-year review and year-end audit of the Company's accounting policies and procedures. Furthermore, the Internal Audit director of the Company maintained regular contact with the Audit Committee and the external auditors of the Company. The Audit Committee held regular meetings with the external auditors without any member of the Management Board or financial or accounting staff of the Company present.

The Audit Committee further reviewed the proposed audit scope and fees for the external auditors of the Company and after assessment of the performance of the external auditors, it advised the Supervisory Board to propose to the General Meeting of Shareholders to re-appoint Ernst & Young Accountants LLP through the December 31, 2011 financial year. Fees were established in the amount of €400,000 per annum, which includes the cost of the mid-year review.

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

Selection and Appointment Committee

Composition: Mr. N. Quinkert (Chairman) and General W. 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 held two regular meetings during the year, in addition to various informal meetings and contacts with the Chairman of the Management Board, and reported its findings to the Supervisory Board. An important topic concerned the reduction of the size of the Management Board from five to four members with a view to increasing efficiency in the operations of the Management Board. The Supervisory Board did adopt the recommendation of the Selection and Appointment Committee to eliminate the position of the Vice Chairman of the Management Board with effect as of October 1 , 2009. As of that date, the Management Board does consist of four members, i.e. the Chairman and Chief Executive Officer, the Chief Financial Officer, the President of the Advanced Materials Division and the President of the Engineering Systems Division.

Remuneration Committee

Composition: Messrs. J. Messman (Chairman) and P.P. Kuczynski

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

The Remuneration Committee held three regular meetings in 2009, in addition to various informal discussions among its members. Topics of discussion at the meetings included: (i) implementation of the new remuneration policy, which was adopted by the General Meeting of Shareholders on May 13, 2009, including policies with respect to the compensation of the Management Board; (ii) review of the base salary for members of the Management Board; (iii) annual bonuses for members of the Management Board; and (iv) review and adjustment of the cash-based compensation for members of the Supervisory Board as of 2009. In performing its duties and responsibilities the Remuneration Committee was assisted by external remuneration experts.

Specific attention was devoted by the Remuneration Committee to the compensation package agreed with Mr. Arthur Spector, whose service concluded on October 1, 2009, as Vice-Chairman and member of the Management Board. The Supervisory Board wishes to thank Mr. Spector for his many years of service to AMG and the significant contributions he has made to AMG and its predecessor companies.

A detailed explanation of the retirement package agreed with Mr. Spector in 2009 is provided in Note 39 to the Consolidated Financial Statements [page 129 of this Annual report]. The Company observes that it does not comply with best practice provision II.2.8 of the Corporate Governance Code for reasons as further explained below in the Chapter on Corporate Governance.

Remuneration Report

The year 2009 was highlighted by the introduction of the new Remuneration Policy for the Management Board, which was approved and adopted by the General Meeting of Shareholders in May 2009. This new Remuneration Policy is posted on the Company's website under the heading Corporate Governance.

This Remuneration Report contains the following two sections:

- Report on Remuneration of the Management Board in 2009
- Remuneration of the Management Board in 2010

Report on Remuneration of the Management Board in 2009

The remuneration of AMG's Management Board for 2009 was based on the remuneration policy approved by the Supervisory Board and adopted by the General Meeting of Shareholders in May 2009 ("the Remuneration Policy"). The Remuneration Policy was developed with a group of peer companies drawn from the Hay Group Industrial Market Database. This peer group is an important yardstick for the Supervisory Board in determining performance by the Company and setting compensation for the Company's Management Board. In addition, it is noted that pursuant to the Remuneration Policy, it has been accepted that the Remuneration Committee would honor existing contractual agreements of the current Management Board members and therefore would continue to accept the dual employment contract system as basis for the remuneration of the Management Board members. The main terms and conditions of the employment contracts of the Management Board members are published on the Company's website under the heading Corporate Governance. Mr. Arthur Spector, Vice-Chairman of the Management Board, retired from the Company and as Management Board member effective October 1, 2009.

In establishing the 2009 remuneration, the Supervisory Board has considered multiple scenarios on how the remuneration components would be affected given different sets of circumstances. In view of the difficult economic climate facing the Company and the need to limit the outflow of cash, the Management Board members had all offered to reduce their Base Salary for 2009 in return for stock options. This was approved and adopted by the General Meeting of Shareholders in May 2009 and implemented immediately thereafter. This reduction in Base Salary for 2009 did not affect entitlement by Management Board members to the level of pay-out of their Annual Bonus as a percentage of Base Salary.

In addition, the Supervisory Board considered the long term strategic objectives of the Company and reviewed both at the beginning and at the end of 2009, whether, given the prevailing economic climate, the variable remuneration components should be adjusted. It was decided by the Supervisory Board that the targets of the annual bonus components as initially established should be adjusted in order to achieve a fair outcome of the 2009 remuneration process as is further explained below.

Management Board Remuneration in 2009

For 2009, the costs incurred with respect to the Management Board's remuneration were the following:

FOR THE YEAR ENDED DECEMBER 31, 2009	BASE SALARY	ANNUAL BONUS	OPTION COMPENSATION	VALUE OF VESTED OPTIONS "IN THE MONEY" AT DEC. 31, 2009	PERFORMANCE SHARE UNITS	RETIREMENT BENEFITS & PENSIONS	OTHER REMUNERATION
Dr. Heinz Schimmelbusch	$732,267	$560,184	$2,004,426	$138,989	$1,055,899	$561,266	$44,482
Arthur Spector	$729,945	$—	$258,846	$—	$—	$610,972	$—
Eric Jackson	$426,240	$249,350	$861,794	$80,454	$316,762	$177,763	$30,520
Dr. Reinhard Walter	$441,307	$258,164	$880,475	$86,964	$316,762	$43,026	$23,064
William J. Levy	$332,907	$194,750	$754,611	$63,053	$211,181	$32,500	$32,684

The remuneration contracts of the Management Board members were with more than one Company now comprising AMG. The remuneration levels in the table above show the aggregate amounts of the contracts per Management Board member. In addition, Dr. Schimmelbusch received compensation of $49,751 as Chairman of the Supervisory Board of AMG's subsidiary Graphit Kropfmühl AG. A detailed explanation of the remuneration paid in 2009 is provided in Note 39 to the Consolidated Financial Statements. Dr. Schimmelbusch and Mr. Spector also received remuneration from AMG's associate Timminco for their work for that company as Chief Executive Officer and Chairman of the Board and Director, respectively.

Base Salary

The Base Salaries of the Management Board members were determined by the Supervisory Board in line with the Remuneration Policy of the Company. In 2009 for all Management Board members there was no increase in Base Salary compared to 2008.

Annual Bonus

In line with the Remuneration Policy, the short-term incentive plan provides for an annual cash bonus, which depends on three key performance metrics:

- 40%: Return on Capital Employed (ROCE) (excluding construction in progress)
- 40%: Adjusted Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)
- 20%: Individual Performance

The Supervisory Board, on the recommendation of the Remuneration Committee, has established the Annual Bonus over 2009 as 60% of the target amount. The Supervisory Board had reached this decision in view of the extraordinary circumstances facing the Company and the industries in which the Company is operating. The Supervisory Board holds the view that the Management Board has performed very well in 2009 and that despite the fact that each member has not met the challenging targets for ROCE and EBITDA, each member was entitled to an annual bonus of 60% of target as a reflection of a reasonable and fair compensation policy under extraordinarily difficult economic and financial circumstances.

The table below shows the target and paid out Annual Bonus over 2009 as a percentage of Base Salary per Management Board member. The Base Salary for annual bonus calculation purposes corresponds to full year base salary without reduction of the amounts exchanged for stock options as explained above.

FOR THE YEAR ENDED DECEMBER 31, 2009	TARGET (AS A % OF BASE SALARY)	PAYOUT (AS A % OF BASE SALARY)
Dr. Heinz Schimmelbusch	85%	51%
Arthur Spector	75%	0% (left the Company in 2009)
Eric Jackson	65%	39%
Dr. Reinhard Walter	65%	39%
William J. Levy	65%	39%

Long-term incentives

Each member of the Management Board participates in the AMG Option Plan introduced in 2007 and in the AMG Management Board Option Plan adopted as per the (new) Remuneration Policy in 2009. In addition each member of the Management Board participates in the AMG Performance Share Unit Plan adopted as per the (new) Remuneration Policy in 2009.

The table below provides an overview of the options granted under the AMG Option Plan during 2007, 2008 and 2009. All options granted in 2007 and 2008 are unconditional and have a vesting scheme of 25% per year starting one year after the grant date. In 2009 the Management Board members received options twice. In May 2009 options were granted in lieu of part of the Base Salary for 2009 as authorized by the General meeting of Shareholders on May 13th, 2009. These options are unconditional and all have vested on January 1st, 2010 and are governed by the AMG Option Plan adopted in 2007. In addition in November 2009, options have been granted to the Management Board members pursuant to the Remuneration Policy as long term incentive. These options granted in November 2009 are all conditional and follow the conditions set forth in the Remuneration Policy and are governed by the AMG Management Board Option Plan adopted in 2009.

AMG OPTION PLAN (ALL CURRENCY AMOUNTS IN EUROS)			NON-VESTED OPTIONS UNDER THE PLANS				VESTED OPTIONS UNDER THE PLANS		
FOR THE YEAR ENDED DEC. 31, 2009	YEAR	DATE OF GRANT	# OF OPTIONS	PRESENT VALUE AT DATE OF GRANT[1]	EXERCISE PRICE AT DATE OF GRANT	VESTING SCHEME	# OF OPTIONS	VALUE AT DEC. 31, 2009	SHARE PRICE AT DEC. 31, 2009
Dr. Heinz Schimmelbusch	2007	7/11/2007	112,500	1,350,000	24.00	25% per year	112,500	—	8.84
	2008	11/12/2008	100,000	635,000	12.70	25% per year	33,333	—	
	2009	5/13/2009	—	—	8.00	By 12/31/2009	165,463	138,939	
	2009	11/10/2009	101,626	500,000	9.84	50% after 3rd year; 50% after 4th year	—	n/a	
Arthur Spector	2007	7/11/2007	100,000	1,200,000	24.00	25% per year	100,000	—	8.84
	2008	11/12/2008	93,333	444,500	12.70	25% per year	23,333	—	
Eric Jackson	2007	7/11/2007	50,000	600,000	24.00	25% per year	50,000	—	8.84
	2008	11/12/2008	30,000	190,500	12.70	25% per year	10,000	—	
	2009	5/13/2009	—	—	8.00	By 12/31/2009	95,779	80,454	
	2009	11/10/2009	30,488	150,000	9.84	50% after 3rd year; 50% after 4th year	—	n/a	
Dr. Reinhard Walter	2007	7/11/2007	50,000	600,000	24.00	25% per year	50,000	—	8.84
	2008	11/12/2008	30,000	190,500	12.70	25% per year	10,000	—	
	2009	5/13/2009	—	—	8.00	By 12/31/2009	103,528	86,964	
	2009	11/10/2009	30,488	150,000	9.84	50% after 3rd year; 50% after 4th year	—	n/a	
William J. Levy	2007	7/11/2007	50,000	600,000	24.00	25% per year	50,000	—	8.84
	2008	11/12/2008	20,000	127,000	12.70	25% per year	6,667	—	
	2009	5/13/2009	—	—	8.00	By 12/31/2009	75,063	63,053	
	2009	11/10/2009	20,325	100,000	9.84	50% after 3rd year; 50% after 4th year	—	n/a	

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

Performance Share Units

In 2009 the Supervisory Board awarded performance share units for the first time to the Management Board members. The present value of the PSU award for the Management Board members in 2009 was as follows:

Dr. Heinz Schimmelbusch	€500,000
Eric Jackson	€150,000
Dr. Reinhard Walter	€150,000
William J. Levy	€100,000

The present value of the PSUs is calculated as 80% of the fair market value at the grant date.

Pensions and retirement benefits

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

Dr. Schimmelbusch and Mr. Jackson receive additional retirement benefits from Metallurg's Supplemental Executive Retirement Plan ("SERP"). With respect to Dr. Schimmelbusch , the supplemental benefits are payable commencing at the later of age 70 or the end of his employment with AMG. The benefit to be paid will be reduced by the amounts received under the normal retirement benefit under the Metallurg pension plan. See Note 27 to the Consolidated Financial Statements.

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

In 2010 the Supervisory Board has agreed to align the pension entitlements of Mr. Levy and Dr. Walter with those of Mr. Jackson. Accordingly, if either Mr. Levy or Dr. Walter are employed by AMG or remain in AMG's employment until either of them is 65 whether or not he has terminated his employment, he is entitled to receive retirement benefits (reduced by amounts received under Metallurg's respectively ALD's pension plan).

Total costs to AMG with respect to the pension and retirement benefits of the Management Board in 2009 is provided in the table above which sets forth total costs incurred in 2009 for Management Board remuneration.

Other benefits

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

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

Contracts

Each member of the Management Board has a contract of employment with AMG. In case AMG terminates the contract(s) of employment without cause, the maximum severance payment is limited to two years Base Salary and two years of target Annual Bonus. Current agreements with respect to severance payments do not comply with best practice provision II.2.7 of the Dutch Corporate Governance Code. As part of its approved and adopted Remuneration Policy, AMG will honor existing contractual agreements for its current Management Board members and adapts to individual country practices, which differ from best practice provision II.2.7 of the existing Dutch Corporate Governance Code.

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

Conclusion of the services by Mr. Spector

The Company, represented by the Chairman of the Remuneration Committee, agreed with Mr. Spector, that he would conclude his services and relinquish his position as Vice Chairman and member of the Management Board effective October 1st, 2009. As compensation Mr. Spector received an amount equal to two years Base Salary, such amount increased with one year target bonus due under his contract with AMG, all in line with Mr. Spector's contractual arrangements with the Company. In addition Mr. Spector is entitled to exercise his rights under the prevailing Stock Option plans of the Company and Mr. Spector is entitled to his accrued pension rights and certain other benefits under his employment contracts. A detailed account of the amounts to be paid by the Company to Mr. Spector due to his departure as Management Board member are set forth in note 39 to the Consolidated Financial Statements. The Supervisory Board wishes to thank Mr. Spector for his many years of service to AMG and the significant contributions he has made to AMG and its predecessor companies.

The Supervisory Board realizes that the severance pay arrangement concluded with Mr. Spector does not comply with best practice provision II.2.8 of the revised Corporate Governance Code, but the Supervisory Board believes this is justified as further explained below in the Chapter on Corporate Governance.

Management Board Remuneration for 2010

In line with the Remuneration Policy, the Remuneration Committee has set up the size and structure of the Management Board's remuneration for 2010. The Remuneration Committee has analyzed the possible outcomes of the different remuneration components in view of various economic scenario's and how these may affect the remuneration of Management Board members.

Base Salary

The Supervisory Board has for 2010 decided that the Base Salary of the Management Board members will not change as compared to the Base Salary levels of 2009 and 2008.

The table below shows the Base Salaries for 2010 and 2009: it is noted that in 2009 the Base Salary was reduced by 50% for the period May 1st to December 31st, and replaced by stock options.

BASE SALARY	2010	2009
Dr. Heinz Schimmelbusch	$1,100,000	$732,267
Eric Jackson	$640,000	$426,240
Dr. Reinhard Walter	$665,000	$441,307
William J. Levy	$500,000	$332,907

Annual Bonus

Each year, a variable cash bonus can be earned based on achievement of challenging targets. The Annual Bonus criteria are set forth below and relate 80% to financial indicators of the Company and 20% to the individual performance of Management Board members.

The Supervisory Board determines ambitious target ranges with respect to each performance metric with respect to the threshold, target and maximum pay-out and determines whether performance targets are met. It has the ability to adjust the value upward or downward if the predetermined performance criteria would produce an unfair result due to incorrect financial data or extraordinary circumstances.

The Annual Bonus pay-out in any year relates to achievements realized during the preceding year in relation to the agreed targets.

The Annual Bonus for 2010 will be determined as follows:

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

The table below shows the Annual Bonus for each member of the Management Board as a percentage of Base Salary in case threshold, target and maximum performance levels are reached. Below threshold level the payout will be 0%. The Supervisory Board has considered whether given the continued difficult economic circumstances adjustment of the annual bonus components would be merited and has concluded that such adjustment is not needed.

MANAGEMENT BOARD POSITION	MINIMUM PAYOUT	TARGET PAYOUT	MAXIMUM PAYOUT
Chairman and Chief Executive Officer	0%	85%	255%
Divisional head	0%	65%	195%
Chief Financial Officer	0%	65%	195%

Long-term incentives

In line with the Remuneration Policy, the long-term incentives for the Management Board for 2010 consist of two programs: the Performance Share Unit Plan and the Stock Option Plan.

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

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

This year's grant (2010) will be the second grant under the new plan and vesting will apply as outlined in the schedule above. Vesting of the Performance Share Units under the first grant is subject to:

- A minimum average ROCE over the performance period
- The relative Total Shareholder Return compared to the Bloomberg World Fabricate/Hardware Index.

Each year the Supervisory Board determines the target range with respect to the ROCE performance metric which serves as threshold and determines whether such threshold has been achieved. In addition it monitors and establishes the applicable TSR Ranking for the relevant PSU period. The TSR Ranking used applies the Bloomberg World Metal Fabricate/Hardware Index as further explained in the Company's Remuneration Policy, which is available in the Corporate Governance section of the Company's website. The Supervisory Board has the ability to adjust the value upward or downward if the predetermined performance criteria would produce an unfair result due to incorrect financial data or extraordinary circumstances.

The present value of the PSUs to be granted in 2010 is €500,000 for Dr. Schimmelbusch, €150,000 for Mr. Jackson and Dr. Walter and €100,000 for Mr. Levy;. The present value of the PSUs is calculated as 80% of the fair market value at the grant date.

With regard to the Stock Option Plan ("SOP"), each member of the Management Board was granted stock options in 2009 in accordance with the Remuneration Policy. Vesting of the stock options is subject to a minimum three year average ROCE requirement. The stock options will vest half after the third anniversary and half after the fourth anniversary. The present value of the stock options under the SOP to be granted in 2010 is €500,000 for Dr. Schimmelbusch, €150,000 for Mr. Jackson and Dr. Walter and €100,000 for Mr. Levy. The present value of the stock options under the SOP is calculated as 50% of the fair market value of the shares at the grant date. The aggregate number of stock options to be granted under the Remuneration Policy to members of the Management Board shall not exceed 10% of the outstanding share capital of the Company from time to time.

Pension and other benefits

The pension and other benefits of the members of the Management Board will not change compared to 2009, except that the pension rights of Mr. Levy and Dr. Walter have been aligned (on a comparable basis) with the pension rights of Mr. Jackson.

Contracts

The current contractual agreements will not change compared to 2009. Main elements of the contracts with the Management Board members are published under the Corporate Governance section of the Company's website.

Shares Held by Members of the Management Board

As of December 31, 2009, Dr. Schimmelbusch and Dr. Walter directly held, respectively, 14,150 and 6,000 of AMG's shares. Dr. Schimmelbusch holds derivative rights in the shares of AMG and Timminco owned by Safeguard International. As of December 31, 2009, Safeguard International owned 7,142,662 shares of AMG. Through Safeguard's positions, Dr. Schimmelbusch derivatively owns in the aggregate approximately 272,600 shares in AMG.

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 in what has been an extremely difficult year for the Company. The economic and financial circumstances which started their impact in the second half of 2008, continue to affect the Company going forward into 2010. The Management Board did an excellent job of keeping the Company focused on its operations despite the difficult circumstances. The Supervisory Board would also like to thank all the employees of AMG Group for their daily commitment to AMG.

Annual Report 2009

The Annual Report and the 2009 Annual Accounts, audited by Ernst & Young Accountants LLP, have been presented to the Supervisory Board.

The 2009 Annual Accounts and the report of the external auditor with respect to the audit of the annual accounts were discussed with the Audit Committee in the presence of the Management Board and the external auditor. The Supervisory Board endorses the Annual Report and recommends that the General Meeting of Shareholders adopts the 2009 Annual Accounts.

Supervisory Board AMG Advanced Metallurgical Group N.V.

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

March 31, 2010

Sustainable Development

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

AMG Facilities[1]	2008	2009
ADVANCED MATERIALS DIVISION		
Cambridge, OH	Y	Y
Chauny	Y	Y
Lucette	Y	Y
Nünnberg	Y	Y
Rotherham	Y	Y
Sao Joao del Rei, Manufacturing	Y	Y
Nazareno	Y	Y
Minworth	Y	Y
Anglesey	Y	Y
Freiberg	Y	Y
ENGINEERING SYSTEMS DIVISION		
Hanau	N	Y
Berlin	N	Y
Port Huron, MI	N	Y
Columbia, SC	N	Y
Limbach	N	Y
Ramos Arizpe	N	Y
CORPORATE OFFICES		
Amsterdam	N	Y
Wayne, PA	N	Y

Scope and Boundaries

This section provides an evaluation of AMG's safety and environmental performance for 2009 compared to 2008. The report focuses on the Global Reporting Initiative (GRI) labor and environmental aspects that are most material to AMG's manufacturing operations. The GRI is a network-based organization that publishes the world's leading sustainability reporting framework. During 2009 AMG increased the scope of its sustainable development data collection and reporting. Although no locations were acquired or closed during 2009. Several manufacturing sites and administrative offices were added to this performance analysis. The total number of reporting sites increased from 9 in 2008 to 17 in 2009. The main change is the inclusion of data for the Engineering Systems Division, driven in part by the opening of its manufacturing and assembly plant in Berlin. Data for corporate office activities are included within the Advanced Materials Division information. The facilities included in the report are detailed in the table on the left.

All sites reported environmental performance at the end of the fourth quarter of 2009 and no forecast data was utilized. AMG utilizes a standard environmental reporting template on which all sites report their data in order to ensure consistency in the interpretation of definitions of the key indicators. This approach is supported by training and by consistent auditing by AMG's third party check partner, Conestoga-Rovers & Associates.

AMG's publicly traded Graphit Kropfmühl and Timminco business units also collect sustainable development data and either currently do, or will in coming years, report this information in their own Annual Report.

The environmental key performance data for the Advanced Materials and Engineering Divisions are summarized in the table on page 56.

(1) The chart indicates which facilities were included in the scope of the sustainable development data.

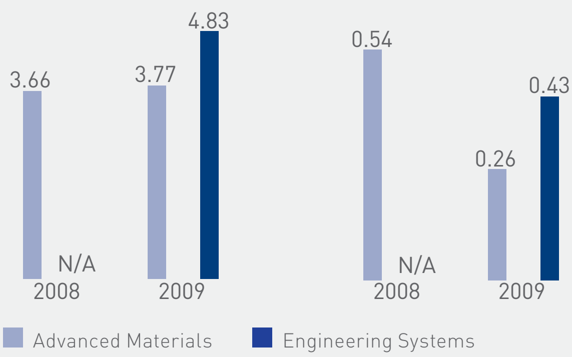
Workforce and safety data

GRI Indicators LA1, LA4 and LA7

Employee safety remains a key focus of the AMG business units. As of year-end 2009 the Advanced Materials Division had a workforce of approximately 1,140 of which 76% were covered by collective bargaining agreements. There were no fatal accidents amongst this workforce during 2007, 2008 or 2009. Safety performance remained almost unchanged with the lost time accident (LTA) rate[1] at 3.8 per 200,000 hours worked. The accident severity rate[2] showed a marked improvement, with an almost 50% reduction from 0.54 in 2008 to 0.26 in 2009. Further improvements in these rates remain a key focus of AMG and all sites are required to report all injuries to the corporate office each month. This allows AMG to quickly react to sites experiencing unacceptable safety performance, identify trends in the industry and promote shared learning within the business units.

As of year-end 2009, the Engineering Systems Division had a workforce of approximately 672, of which 43% were covered by collective bargaining agreements. There were no fatal accidents amongst this workforce during 2009. The Division had an LTA rate of 4.8 and a severity rate of 0.43. An improvement program has already been implemented in 2010 with the aim of significantly reducing the lost time accident rate.

Lost time accident rate   Accident severity



Resource efficiency and recycling

GRI Indicators EN1 and EN2

The Advanced Materials Division operations can be separated into those that exclusively utilize primary raw materials by the nature of their business, for example mining, and those that specifically utilize recycled or reused raw materials to recover metal values. Across the Division, and excluding mining operations in Brazil which are by definition primary, 103,000 metric tons of raw materials were utilized, of which 23,000 metric tons, or 23%, were secondary or recycled materials. The Brazilian mine utilized a further 304,000 metric tons of primary raw materials.

The Engineering Systems Division is primarily an engineering services provider, with additional furnace service operations (heat treatment services) and furnace manufacturing and assembly plants. As such, the Division uses limited amounts of raw materials, mainly component parts, and does not knowingly use significant recycled materials. It is likely that some of the metallic components contain a proportion of recycled metals. As a result of the nature of the business, raw materials are routinely measured in units rather than by mass which means in many cases data is unavailable or must be approximated. In 2009 this Division reported using 4504 metric tons of raw materials, all of which were classified as primary.

Energy consumption

GRI Indicators EN3 and EN4

Energy usage was determined by collecting data on all energy carriers. In addition to the two most significant contributors, electricity and natural gas, minor energy sources such as gasoline, diesel, bottled gases (LPG) and purchased steam and compressed gases continue to be included in 2009. Additionally the split between renewable and non-renewable sources of energy was assessed. Administrative offices collected data for the first time in 2009, and this is included within the Advanced Materials Division report.

The Advanced Materials Division total energy usage in 2009 was reduced 12% at 830 terajoules (TJ) in 2009 compared to 944 TJ in 2008. This reduction is primarily related to the lower production tonnages in 2009 as a result of the economic downturn and challenging market conditions. Direct (446 TJ) and indirect (385 TJ) energy usage each accounted for approximately half of the total energy usage. The most significant energy carriers by a wide margin are electricity and natural gas.[3]

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

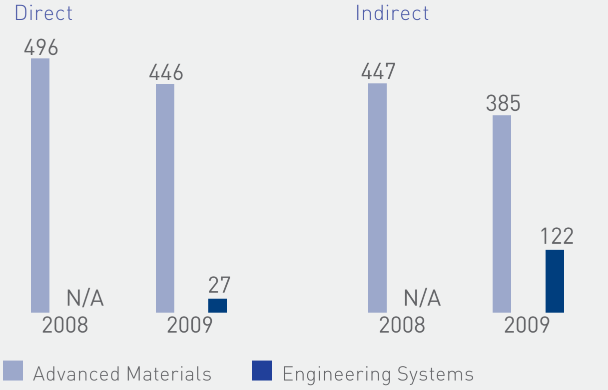
2 Severity is defined as the number of worker-days lost as a result of disabling injuries per thousand worker-hours of exposure.

3 Indirect energy consumption does not include the energy consumed by electricity producers to generate the electricity or transmission losses.

The Engineering Systems Division uses significantly less energy than Advanced Materials which uses high energy furnace processes to produce metals in the molten state. In contrast, the majority of energy used by Engineering Systems Division is to power furnaces used for heat treatment at the own and operate facilities in Limbach, Port Huron, Columbia and Ramos Arizpe. These are lower temperature processes that consume less energy. In 2009 the Division used a total of 149 TJ. Indirect energy, in the form of electricity, accounted for 82% of the energy usage (122 TJ) while direct energy, primarily natural gas and some liquid fuels made up the remaining 18% (27 TJ).

At both Divisions, the unavailability of data from electricity utilities makes the split between renewable and non renewable energy sources difficult to accurately measure. The one exception is for the Brazilian sites since electricity is either generated internally at the newly expanded hydroelectric facility, with surplus clean electricity sold back to the grid, or purchased from the local supplier, Companhia Energética de Minas Gerais (CEMIG), which also generates over 97% of its power utilizing hydroelectric plants.

Energy usage (terajoules)



Water consumption

GRI indicator EN8

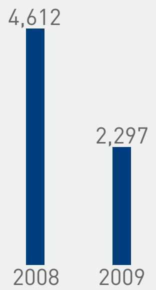
Water is often essential for AMG's manufacturing processes and is most predominantly used for non-contact cooling purposes in closed cycle loops. In other cases it is used for evaporative or single pass cooling. Water consumption across the Company is reported for all purposes, including both sanitary and process uses. Although AMG does not currently operate in areas of drought or water shortage, the Company recognizes that careful use of water resources is essential to overall efficiency and sustainability.

The Advanced Materials Division water usage (excluding the Brazilian mine) remained relatively constant in 2009 at 311 million liters compared to 308 million liters in 2008. In 2009 a number of improvements in measurement were made such as the installation of new, or recalibration of existing, meters.

The largest water consuming site is the mine in Brazil and this is considered separately. In 2009 direct water metering was installed at the mine and new more water efficient equipment was brought on line. As a result of these factors water use declined in 2009 to 2,297 million liters, remarkably lower compared to 4,612 million liters in 2008.

Data on water usage within the Engineering Systems Division, collected for the first time in 2009, revealed consumption of 42 million liters. This water is used almost exclusively for non-contact cooling purposes associated with furnace operations at the Company's heat treatment facilities. Additionally, small amounts of water are used for quenching purposes in some treatments.

Mine Water Usage (millions of litres)



Climate change

GRI Indicators EN16

The most significant greenhouse gas (GHG) emissions for AMG are related to the generation of heat for metallurgical processing using purchased electricity. This electricity use gives rise to emissions of CO2 equivalent (CO2e), calculated using emission factors available from the electricity supplier, the local environmental agency or the GHG protocol. Whenever possible the most up to date emission factors have been utilized. Electricity is the major source of indirect GHG emissions, defined as those emissions generated by sources outside of AMG's control, but where AMG ultimately uses the energy.

Combustion of carbon containing materials on our sites for either the generation of heat energy or as part of the metallurgical process, such as using coke as a reductant, gives rise to the Direct GHG emissions reported here.

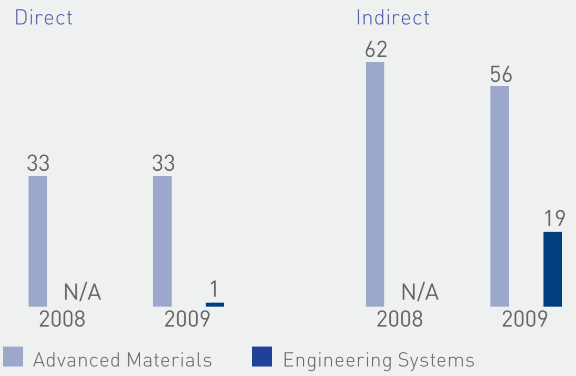
These combustion processes generate carbon dioxide, nitrous oxide and small amounts of methane. The amounts are calculated using local guidance and regulations, the GHG protocol methodologies and tools, or first principles. Other GHGs occurring from processes other than combustion, such as hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride, are minimal for the AMG business units.

The Advanced Materials Division GHG emissions in 2009 were 88,500 metric tons of CO2e, down from 94,000 metric tons in 2008, or a 9.5% reduction. This reduction is partially due to reduced energy usage as a result of reduced production volume, offset marginally by improved measurement and calculation methods. In order to compare year on year performance, the Division has utilized the overall GHG intensity, defined as metric tons of CO2e produced per metric ton of product, which reduced to 0.36 in 2009 from 0.39 in 2008, a 7% reduction.

The Engineering Systems Division's GHG emissions in 2009 were 20,170 metric tons. These emissions come primarily (94%) from indirect emissions associated with electricity usage and are highly dependent on the emission factors associated with the electricity suppliers in the locations of the plants.

Greenhouse Gas Emissions

(thousands of metric tons)



GRI Indicator EN17

Indirect greenhouse gas emissions, sometimes referred to as scope 2 emissions, result from the purchase of electricity, heat or steam. AMG reports these under GRI aspect EN16. Scope 3 emissions cover other sources such as employee commuting, business air travel, deliveries of raw materials and products and waste disposal. Due to the difficulty in collecting this information in a global operation such as AMGs, the Company does not calculate scope 3 emissions and has no plans to do so in the near future.

Emissions to air

GRI Indicators EN19 and EN20

The emissions of ozone depleting substance remain deminimis for the Advanced Materials Division. No known sources of these substances were identified. Other air emissions considered included particulate matter (PM), SOx, NOx and volatile organic compounds. Of these emissions, the most significant in 2009 were sulfur dioxide (422 metric tons), PM (37 metric tons) and NOx (7 metric tons). Reliable data was only available for regulated air emission sources. Although there may be other minor emissions, these are not expected to be material for the purposes of this report.

The Engineering Systems Division did not emit any known or measurable quantities of ozone depleting substances in the reporting period and it is expected that such emissions will not be material going forward. Additionally the nature of the Division's operations means that other air emissions such as NOx, SOx and PM are minor and not considered material for this report.

Emissions to water

GRI Indicator EN21

AMG facilities maintain records of the volume of aqueous effluents, including process water and non-sanitary sewer releases, discharged to local water courses. Chemical analysis of the effluent is used to determine the total mass of primary constituents in the discharge.

In 2009, total waste water disposed to water courses by the Advanced Materials Division, excluding the Brazil mine, totaled 151 million liters compared 190 million liters in 2008. The Brazil mine site, which has recently installed more efficient process equipment and water meters, discharged 1,933 million liters of water to the local river, compared to an estimated 4,976 million liters in 2008. Although some of this reduction can be attributed to operational shutdown periods, the majority is derived from true efficiency savings from new process equipment.

Although most of the Division's water is used for cooling purposes, there are a small number of wet chemical processes generating waste streams. For the four production sites reporting industrial process water disposal, the major constituents were metals (179 kg), fluoride (158 kg), sulfate (520 metric tons) and total suspended solids (7.5 metric tons). Additionally, this water included 3,021 kg of chemical oxygen demand or biological oxygen demand. Further, the large volume of water discharged to surface water from the mine site in Brazil contains suspended solids totaling approximately 465 metric tons.

The Engineering Systems Division also utilizes water almost exclusively for non-contact, closed-cycle cooling purposes. In 2009, 42 million liters of water were discharged. Because of the nature of the use, data on constituents in the discharge is not available but is not expected to be material to this report.

Waste disposal

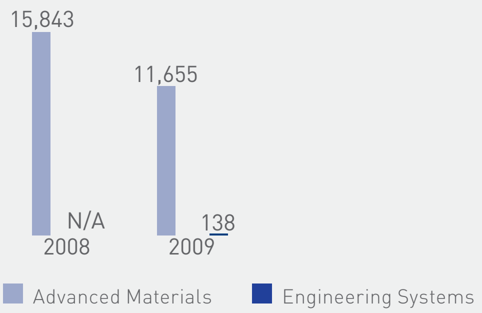
GRI Indicator EN22

All facilities are required to report a detailed breakdown of waste streams and information regarding the disposition of these wastes. Wherever possible, the Company seeks on-site recycling options or beneficial reuse rather than landfill disposal for its wastes. The Company believes the majority of waste streams can be utilized as by-products either by virtue of their chemical composition or physical properties. AMG actively seeks internal and external customers for all these materials.

In 2009, the Advanced Materials Division disposed of 11,655 metric tons of waste to landfills, representing a decrease of 26% compared to the 2008 figure of 15,843 metric tons. The majority of waste produced (71%) is non-hazardous, although it is generally easier to recycle or beneficially reuse non-hazardous wastes.

Although full data was not available for all sites, the Engineering Systems Division disposed of approximately 525 metric tons of waste to landfills in 2009, 87% of which was non-hazardous waste. A further 271 metric tons of waste were recycled or beneficially reused, including scrap metal, used oil and wood products.

Total landfilled waste disposal (metric tons)



GRI Contents

This section provides an overview of how AMG's Annual Report correlates with the GRI G3 guidelines for the voluntary reporting of sustainable development indices. The table on page 56 serves as a reference guide to the sections of the report where information about each item can be found. The GRI G3 guidelines facilitate measurement of economic, environmental and social dimensions of Company performance. Third party verification has been conducted to ensure that AMG's reporting is consistent with the GRI reporting principles. AMG believes that in all material aspects the report meets the requirements of a minimum of a C+ report level. Some additional indicators beyond those required for this reporting level are included and these are indicated on the table.

Environmental Remediation

The completion of environmental remediation tasks at AMG's subsidiary Metallurg Vanadium in Cambridge, Ohio marks a major milestone for the site. Soils and sediments have been cleaned, landfills capped and closed and surface water quality dramatically improved. First identified in the mid 1990's, these complex legacy issues have been resolved under the careful oversight of Ohio Environmental Protection Agency and Ohio Department of Health. As part of a multi-million dollar project, the Company has placed over 100 acres of wetlands under a protective Environmental Covenant and set aside significant funds in trust to monitor and maintain the site for years to come.

A similar legacy environmental clean up is underway at the Shieldalloy subsidiary's Newfield, New Jersey site where over $20 million has been spent on ongoing groundwater remediation. The oversight of the landfill at the Site, which contains small percentages of uranium and thorium, recently transferred from Federal to local State regulation and the new State regulations are substantially different to those under which decommissioning has been carried out for many years. As a result, the Site is the matter of litigation to determine if the proposed and proven onsite remediation allowed under Federal rules will still be possible under the State regulation. Off site disposal, if even possible would be significantly more costly.

See note 38 to the Consolidated Financial Statements for information regarding environmental matters affecting the Company.

United Nations Global Compact

AMG commits its support to the principles of the United Nations Global Compact (the Global Compact). The Global Compact, which is overseen by the United Nations (UN), is a strategic policy initiative for businesses that, like AMG, are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, the environment and anti-corruption.

In 2009, the Management Board of AMG approved its commitment to the Global Compact and on December 1, 2009 Dr. Heinz Schimmelbusch, Chairman and CEO submitted a letter to the Secretary General of the United Nations, Mr. H.E. Ban Ki-moon, expressing the intent of AMG to support the ten principles of the Global Compact. AMG will submit its first Communication on Progress (COP) in December 2010.

Extractive Industries Transparency Initiative

AMG supports the Extractive Industries Transparency Initiative (EITI), a global initiative to improve governance in resource-rich countries through the verification and full publication of Company payments and government revenues from oil, gas, and mining. The Initiative works to build multi-stakeholder partnerships in developing countries in order to increase the accountability of governments.

Over 20 countries have now committed to the EITI principles and criteria, although, as of today, AMG does not have any active extractive operations in any EITI implementing country that has completed at least one validation.

Global Reporting Initiative

AMG supports the Global Reporting Initiative (GRI), and is an Organizational Stakeholder (OS). GRI is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. In order to ensure the highest degree of technical quality, credibility, and relevance, the reporting framework is developed through a consensus-seeking process with participants drawn globally from business, civil society, labor, and professional institutions.

This framework sets out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. The cornerstone of the framework is the Sustainability Reporting Guidelines. The third version of the Guidelines – known as the G3 Guidelines - was published in 2006, and is a free public good. Other components of the framework include Sector Supplements (unique indicators for industry sectors) and National Annexes (unique country-level information).

The Organizational Stakeholder Program is located at the center of the global multi-stakeholder network that constitutes GRI. Organizational Stakeholders put their name to the GRI mission, products and processes, and broadening participation around sustainability and transparency. The Organizational Stakeholders provide a key basis for legitimacy to GRI and reinforce its common commitment as a network to change.

Environmental, Health, Safety and Social Reporting Statement of Assurance

Scope, Objectives & Responsibilities

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

Approach and Limitations

CRA's assurance engagement has been planned and performed in accordance with AMG's internal guidance and definitions for the reported indices. The assurance approach was developed to be consistent with the GRI G3 Guidelines and international standards for assurance appointments. CRA conducted site visits to eight of the 18 sites, and met with/interviewed personnel responsible for collecting, reviewing and interpreting the data and information for presentation in the Report for all 18 sites. Stakeholder engagement was not within the scope of the assurance activities.

Conclusions/Recommendations

On the basis of the method and scope of work undertaken, and the information provided to CRA by AMG, the process undertaken by AMG provides a balanced representation of the issues concerning AMG's sustainability performance and is an appropriate presentation of AMG's environmental, safety, health and social performance in 2009.

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

Julian Hayward, P. Eng., Associate
Conestoga-Rovers & Associates

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

www.CRAworld.com

GRI REPORT
3rd PARTY CHECKED

Overview of AMG Social and Environmental Key Performance Indicators and GRI Content Index

Social and Environmental Key Performance Indicators

GRI			ADVANCED MATERIALS		ENGINEERING SYSTEMS	
INDICATOR	DESCRIPTION		2008	2009	2008	2009
LA1	Total workforce		1,394	1,140	No Data	672
LA4	% of employees covered by collective bargaining agreements		77	76	No Data	43
LA7	Accident Rates	Total	3.7	3.8	No Data	4.8
LA7	Accident Severity Rate	Total	0.54	0.26	No Data	0.43
EN2	% Recycled Raw Materials	%	18	23	No Data	0
EN3	Direct Energy Consumption	TJ	496	446	No Data	27
EN4	Indirect Energy Consumption	TJ	447	385	No Data	122
EN8	Water consumption (manufacturing)	Million l	308	311	No Data	42
EN8	Water consumption (mining)	Million l	4,612	2297	Not Applicable	Not Applicable
EN16	CO_2 equivalent emissions	mt	94,000	88,500	No Data	20,170
EN20	SOx emissions	mt	121	4221	No Data	0
EN20	NOx emissions	mt	6.8	7	No Data	0
EN20	Particulates discharged to air	mt	40	37	No Data	0
EN21	Metals discharged to water	kg	62	179	No Data	0
EN22	Hazardous waste (including recycled)	mt	5,368	4,859	No Data	91
EN22	Non-hazardous waste (including recycled)	mt	17,477	11,629	No Data	614
EN22	Percent of waste recycled	%	30	29	No Data	34
EN22	Waste disposed to landfill	mt	15,843	11,655	No Data	524

GRI Content Index

GRI REFERENCE	INDICATOR	PAGES
	GENERAL	
1.1	CEO and Chairman Statement	4–7
2.1 - 2.2	Name, primary brands, products and services	1–28
2.3 - 2.7	Structure, geographical presence, markets served	1–3, 8–28
2.8	Scale of the organization	8–28
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1 Includes additional calculated furnace emissions not included in the 2008 data.

Corporate Governance

General

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

In this report the Company, as a Dutch listed company, sets forth its overall corporate governance structure and the extent to which it applies the provisions of the Dutch Corporate Governance Code as amended most recently by the Corporate Governance Code Monitoring Committee issued on December 10, 2008 (hereafter "Dutch Corporate Governance Code"). The Dutch Corporate Governance Code can be downloaded from www.corpgov.nl. The Supervisory Board and the Management Board, which are responsible for the corporate governance structure of the Company, hold the view that the vast majority of principles set forth in the Dutch Corporate Governance Code as applicable during 2009 is being applied, while certain deviations are discussed and explained hereafter.

As promised in our 2008 Annual Report, this Annual Report contains a special chapter on the Company's compliance with the Dutch Corporate Governance Code. In addition this subject will be part of the agenda as separate item for discussion during the Annual General Meeting of Shareholders in 2010.

Annual Accounts and Dividend

The Management Board and the Supervisory Board have approved AMG's audited (consolidated) financial statements for 2009. Ernst & Young Accountants LLP audited these financial statements.

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

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

Shares and Shareholders' Rights

As of December 31, 2009, the issued share capital of AMG amounts to €537,990.96 consisting of 26,899,548 shares of €0.02 each. Each share carries one vote. The shares are listed on on Euronext Amsterdam by NYSE 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 (Autoriteit Financiele Markten) has been notified about the following substantial shareholdings regarding AMG:

As of February 28, 2010	
Safeguard International Fund LP	26.6%
Morgan Stanley Inc.	5.07%
Hunter Hall Investment Management Ltd	5.10%

All shares carry equal rights.

There are no restrictions on voting rights. Shareholders who hold shares on a predetermined record date are entitled to attend and vote at the General Meeting of Shareholders regardless of a sale of shares after such date, if and to the extent such record date has been set by the Management Board.

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

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

Management Board

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

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

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

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

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

Supervisory Board

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

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

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

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

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

As required under the Dutch Corporate Governance Code, the Company has formalized strict rules to avoid and deal with conflicts of interest between the Company and the members of the Supervisory Board, as further described in the Rules of Procedure of the Supervisory Board.

Further information on the Supervisory Board and its activities is included in the Report of the Supervisory Board (pages 36–44 of this Annual Report).

General Meeting of Shareholders

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

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

On May 13, 2009, the General Meeting of Shareholders resolved to authorize the Management Board for a period of 18 months from that date (until November 12, 2010) as the corporate body which, subject to approval of the Supervisory Board is authorized to issue shares, including any grant of rights to subscribe to shares, with the power to exclude or restrict pre-emptive rights. This authorization allows the issue of up to 10% of the Company's issued share capital as of December 31, 2008 increased with 10% of the company's issued share capital as per December 31, 2008 in connection with or at the occasion of mergers, acquisitions or financial support arrangements.

In addition on May 13, 2009 the General Meeting of Shareholders resolved to authorize the Management Board for a period of 18 months from that date (until November 12, 2010) as the corporate body which, subject to approval of the Supervisory Board, is authorized to effect acquisitions of its own shares by AMG. The number of shares to be acquired is limited to 10% of the Company's issued share capital at the date of acquisition as of December 31, 2008 taking into account the shares previously acquired and disposed of at the time of any new acquisition. Shares may be acquired through the stock exchange or otherwise, at a price between par value and 110% of the stock exchange price. The stock exchange price referred to in the previous sentence is the average closing price of the shares at Euronext Amsterdam on the five consecutive trading days immediately preceding the day of purchase by or for the account of the Company.

Articles of Association

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

Decree on Article 10 of the Takeover Directive

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

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

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

The Company is also a party to the following agreements that will come into force upon a change of control pursuant to a public offer. Certain members of the Management Board have provisions in their contracts that pertain to a change of control. Additionally, the AMG Option Plan and the AMG Performance Share Unit Plan have provisions that permit the Supervisory Board to cancel or modify the options granted or performance share units awarded to Management Board members and other employees, upon a change of control.

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

Compliance with the Dutch Corporate Governance Code

In this chapter the Company discusses its compliance with the principles and provisions set forth in the Dutch Corporate Governance Code as amended in 2008 (hereafter also referred to as "the Code"). In doing so the outline and numbering of the Code is being followed.

As a general statement the Company fully endorses the Corporate Governance Code's principles and believes that virtually all best practice provisions as included in the Code are complied with. On certain matters, primarily involving the remuneration policy of the Company, the Company does not comply with the best practice provisions and it believes that it has sound reasons for doing so, which will be explained hereafter.

I. Compliance and Enforcement of the Code

The general concept explained in this chapter of the Code is fully endorsed and the Company applies the best practice provisions, amongst others, by a clear description in the Annual report of the governance structure of the Company and a clear explanation why it believes deviation of the Code on certain aspects is merited.

II. The Management Board

II.1 Role and Procedure

The Company believes it is in full compliance with the principles and best practice provisions set forth in this chapter. The interaction between Management Board and Supervisory Board and its members is dynamic and is based on a continuing dialogue and review of, inter alia, the strategy of the Group and opportunities for growth, risk management and control systems, financial and operational objectives and the Group's financial situation. The Company specifically refers to the chapter on Risk Management and Internal Control (pages 29–32 of this Annual Report).

II.2 Remuneration

The Company does not fully comply with the principles and provisions set forth in this chapter of the Code. The Company believes it has solid and sound reasons for doing which are explained hereafter.

By way of general background, it is to be emphasized that AMG was first formed in 2006 through the merger of eight operating companies each with different histories and originating from different countries. The members of the Management Board (formed in 2007) had pre-existing contracts as executives of certain of the operating companies that later formed and became part of the current AMG Group. These contracts reflect local market conditions and customary provisions in the countries in which the executives 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, the Supervisory Board of the Company had taken the decision early on to honor the existing contractual commitments to the members of the Management Board, in order to retain their services and to maintain their commitment to the Company.

In 2008, the Remuneration Committee of the Supervisory Board developed an appropriate remuneration policy for the present members of the Management Board and any future members of the Management Board for the years 2009 and beyond, such with specific regard to the Company's existing contractual commitments to the present members of the Management Board. In doing so, the Remuneration Committee has sought advice from compensation and benefit consultants on remuneration packages offered by companies similar to the Company in terms of size and complexity. The resulting remuneration philosophy which forms the basis of the Company's remuneration policy, is strongly geared towards the top quintile of the Hay Group Industrial Market database comprising more then 300 US organizations operating in the manufacturing sector. The US was chosen for the reason that historically the operational headquarters of AMG has been located in the US and that a majority of its Management Board members have strong ties to the professional working environment in the United States.

The new remuneration policy for members of the Management Board was approved and adopted by the General Meeting of Shareholders in its Annual Meeting of May 13, 2009. This (revised) remuneration policy is published on the website of the Company under the heading Corporate Governance.

Below the Company reviews in more detail to what extent its prevailing remuneration policy and practice does not comply with the best practice provisions included in chapter II.2 of the Code.

II.2.4

Under the Company's remuneration policy effective prior to 2009, the members of the Management Board have been granted unconditional options that do not have any performance criteria required to be met. Additionally, such options have a vesting schedule which permits a majority of the options to be exercised within the first three years after having been granted. Furthermore the members of the Management Board have been granted unconditional options, upon approval by the General Meeting of Shareholders in May 2009, in lieu of part of their base salary for 2009, as a measure to minimize cash expenditures by the Company. As a result the Company deviates from best practice provision II.2.4.

II.2.5

The Company has introduced under its new remuneration policy so called performance share units (PSU's) for its Management Board members (as well as other senior executives). No Company shares have been or will be granted to Management Board members. The financial rationale and functioning of PSU's are being explained in the Company's remuneration policy, published on its website. PSU's pay out, if and when targets specified beforehand are met, after three (3) years from the date of allocation. The Company believes that this remuneration component does not violate any of the best practice provisions and spirit of the Code (the Code, incidentally, does not recognize performance share unit systems as such). However, by way of enhanced transparency, and because the Supervisory Board has decided to introduce a phased-in vesting scheme for the initial awards, it is felt appropriate to make specific reference to PSU's under this chapter.

II.2.8

Each member of the Management Board has a contract of employment with AMG as well as a now-constituent entity of AMG prior to the formation of AMG. These contracts provide for payment of two years of base salary compensation in the event of termination by the Company without cause. 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. As a result the company deviates from best practice provision II.2.8 for reasons explained above and in the Company's Remuneration Policy.

II.3. Conflicts of Interest

The Company has introduced strict rules of procedures to deal with (potential) conflicts of interests of Management Board members in an orderly fashion (reference is made to the Rules governing the principles and practices of the Management Board as published on the Company's website). All transactions in 2009 in which a conflict of interest existed with a Management Board member are being published elsewhere in this Annual Report. Accordingly the Company is in full compliance with the best practice provisions set forth in chapter II.3, including specifically provisions II.3.2 and II.3.4.

III. The Supervisory Board

III.1. Role and Procedure

The Company believes it is in full compliance with the principles and best practice provisions set forth in this chapter. The interaction by the Supervisory Board and its committee's on the one hand and the Management Board and its key staff on the other hand, is dynamic and is based on a continuing dialogue and review of, inter alia, the strategy of the Group and opportunities for growth, risk management and control systems, relationships with shareholders, compliance issues, financial and operational objectives and the Group's financial situation.

III.2. Independence

All members of the Supervisory board qualify as independent as defined under the provisions of this chapter.

III. 3 Expertise and Composition

During its annual evaluation session the Supervisory Board unanimously concluded that the Supervisory Board was functioning adequately and that the Supervisory Board's composition was well balanced in terms of competence, nationality, age, experience. During this sessions the Supervisory Board also expressed its desire to increase its diversity in terms of gender, but also acknowledged that given the particular industries in which the Company is operating, suitable candidates with different gender may be difficult to identify and select.

III.4. Chairman of the Supervisory Board and Company Secretary

The Company has implemented and complies with the provisions set forth in this chapter,

III.5. Composition and role of three key committees of the Supervisory Board

The Company has implemented and complies with the provisions set forth in this chapter.

III.6. Conflicts of Interest

The Company has introduced strict rules of procedures to deal with (potential) conflicts of interests of Supervisory Board members in an orderly fashion (reference is made to the Rules governing the principles and practices of the Supervisory Board as published on the Company's website). All transactions in 2009 in which a conflict of interest existed with a Supervisory Board member are being disclosed elsewhere in this Annual Report. Accordingly, the Company is in full compliance with the best practice provisions set forth in chapter III.6, including specifically provisions III.6.1 and III.6 3 thereof.

III.7. Remuneration

The General Meeting of Shareholders approved and adopted in its 2009 Annual Meeting, the granting of shares to members of the Supervisory Board as part of their annual remuneration. As explained by the Supervisory Board during the 2009 Annual General Meeting of Shareholders, it considers it important that it can recruit future members from the global marketplace given the size and complexity of the markets the Company is operating in. This merits that part of the remuneration is paid in company shares, in line with US practice, where the Company has its operational headquarters. Shares granted as compensation to Supervisory Board members are restricted from trading for a period of three (3) years from the date of granting. As a result the Company deviates from best practice provisions III.7.1. and III.7.2. for reasons explained above.

IV. The Shareholders and the General Meeting of the Company

IV.1. Powers

The Company complies with the provisions set forth in this chapter as reflected, inter alia, in its Articles of Association as published on the company's website.

IV.3. Provision of information to and logistics of the general meeting

The Company has implemented and complies with the provisions set forth in this chapter. However, during 2009 it has deviated from best practice provision IV.3.13 as the Company has only recently formulated an outline policy on bilateral contacts with its shareholders and published same on its website.

V. The audit of the financial reporting and the position of the internal audit function and the external auditor.

The Company complies with all principles and best practice provisions set forth in this Chapter, to the extent these provisions are part of the responsibility of the Management Board, Supervisory Board and/or Audit Committee respectively.

Conflicts of Interest

Report on Transactions in 2009

In February 2009, the Company acquired 3,938,200 common shares of Timminco at a price of C$3.55 per share (a total cost of USD 11.5 million), as part of a C$25 million private placement by Timminco, the balance of which was fully subscribed by other investors. The proceeds of this private placement were used for general corporate purposes, including repayment of funds drawn on Timminco's revolving credit facility.

In April 2009, the Company acquired 7,425,743 common shares of Timminco at a price of C$ 2.02 per share (a total cost of USD 12.3 million) as part of a private placement by Timminco which was fully subscribed by the Company. The proceeds of this private placement were used for general corporate purposes.

In November 2009, the Company acquired 3,837,716 common shares of Timminco at a price of C$ 1,38 per share (a total cost of USD 5.0 million) as part of a private placement by Timminco which was fully subscribed by the Company. The proceeds of this private placement were used for general corporate purposes.

In December 2009, the Company acquired a USD 5.0 million convertible senior subordinated promissory note issued by Bécancour Silicon Inc, a wholly owned subsidiary of Timminco (hereafter "BSI"). This promissory note is subordinated to the debt owed to Bank of America under Timminco's credit facility, matures on January 3, 2011 and carries a conversion price of C$ 1.58 per share. The proceeds of this promissory note were used for working capital purposes.

In March 2009, the Company approved that a wholly owned subsidiary of the Company, AMG Conversion Ltd. ("AMGC"), would enter into a substantial cooperation with BSI on the subject of solar grade ingot making operations. As part of such cooperation, AMGC would enter into an Asset Purchase Agreement with BSI for the purchase of certain fixed assets in connection with BSI's solar grade silicon ingot-making operations. The purchase price was paid in cash by AMGC in the amount of USD 7.5 million.

All the transaction listed above ('the Transactions") were approved by the Management Board and the Supervisory Board in accordance with articles 11, 12 and 13 of the Rules of Procedure of the Management Board. Neither Dr. Schimmelbusch, who also serves as Chairman and CEO of Timminco, nor Mr. Spector (until October 1, 2009), who also serves as Vice-Chairman and a Director of Timminco, participated in the discussion or the vote on the Transactions in the meetings of the Management Board. Mr. Messman, who also serves as a non-executive Director of Timminco, did not participate in the discussion or the vote on the Transactions in the various meetings of the Supervisory Board. Accordingly, best practice provisions II.3.2 up to and including II.3.4 as well as best practice provisions III.6.1 up to and including III.6.3 of the Dutch Corporate Governance Code have been complied with.

No further conflicts of interest that were of material significance to the Company and/or members of the Management Board and Supervisory Board were reported in the period starting January 1, 2009 up to and including February 28, 2010 other than the conflicts of interest described above. Further during this period the Company did not enter into any material transaction with a shareholder holding an interest of 10% or more in the Company's share capital.

Corporate Governance Statement

The Decree of December 23, 2004 adopting further rules regarding the contents of the annual report, as amended and extended by the Decree of March 20, 2009 (the "Decree") requires that a statement is published annually by the Company on its compliance with Corporate Governance regulations in the Netherlands. The Company hereby submits that it has fully complied with this requirement by way of publication of this Annual Report and the specific references therein notably to the Report of the Management Board, Report of the Supervisory Board, the chapter on Risk Management and Internal Control, the chapter on Sustainable Development and the chapter on Corporate Governance, all of which are deemed to be incorporated by reference into the Company's statement on corporate governance as required by the Decree.

Financial Review

	Year ended December 31	
	2009	2008*
Revenue and expenses		
Advanced Materials revenue	429,083	756,726
Engineering Systems revenue	320,530	435,462
Graphit Kropfmühl revenue	117,834	87,932
Total revenue	867,447	1,280,120
Cost of sales	701,860	1,017,751
Gross profit	165,587	262,369
Selling, general and administrative expenses	137,537	138,227
Restructuring and asset impairment expenses	9,500	49,998
Environmental expenses	3,998	1,433
Other (income) expense, net	(6,009)	(6,158)
Operating profit	20,561	78,869
Comprehensive loss	(76,887)	(33,978)

*Restated for discontinued operations

Revenue

AMG's revenue declined to $867.4 million in the year ended December 31, 2009 from $1,280.1 million in the year ended December 31, 2008, a 32% decline. 2009 was a year of challenges. The Advanced Materials Division revenues and earnings improved as 2009 progressed, driven by the slow recovery in the global economy. The Engineering Systems Division entered 2009 with a significant order backlog, which buffeted it from some of the economic challenges, but the market for capital equipment deteriorated as the year progressed. Graphit Kropfmühl delivered consistent results throughout the year, driven by resiliency in the energy and specialty chemicals markets.

For the full year 2009, revenue in the Advanced Materials Division decreased 43% to $429.1 million. This decline was caused by lower prices and volumes across most product lines. The largest product contributor was ferrovanadium, for which lower prices had the largest impact.

Revenue for the Engineering Systems Division declined to $320.5 million in the year ended December 31, 2009 from $435.5 million in the year ended December 31, 2008, a 26% decline. The decline was primarily related to revenues from advanced vacuum remelting systems for titanium. The division's revenue from its Own & Operate facilities decreased to $18.2 million in 2009 from $23.1 million in 2008, a 21% decline. The Own & Operate business is predominantly driven by the automotive industry and therefore was significantly impacted by the economic downturn. The recession had a negative impact on the backlog of Engineering Systems, reducing it from $332 million at December 31, 2008 to $162 million, a decline of 51%.

Graphit Kropfmühl was acquired in April 2008. Having twelve months of consolidated activity contributed $117.8 million to AMG's revenue in the year ended December 31, 2009. Although this business was also impacted by the global economy, it managed to maintain stable revenues.

Gross profit

AMG's gross profit declined to $165.6 million in the year ended December 31, 2009 from $262.4 million in the year ended December 31, 2008, a 37% decline. As a percentage of revenue, gross profit was 19% in 2009 as compared to 21% in 2008. The decline in margin was modest given the large declines in revenue. Headcount reductions and product rationalization prevented a more significant decline in margin. Advanced Materials had a decline of $76.3 million, resulting from lower volumes and prices. This division also incurred an inventory write-down of $7.6 million. Engineering Systems managed to increase its gross margin to 33% from 31%, despite a $6.4 million inventory write-down. The ability to improve margin was largely based on the ability of the division to perform more in-sourcing and make better use of its new facility in Berlin. The gross profit contributed by Graphit Kropfmühl was $11.9 million in 2009 as compared to $1.9 million in 2008. The 2008 result was skewed by a one-time charge of $8.2 million related to purchase accounting for inventory.

Selling, general and administrative expenses

Selling, general and administrative costs were $137.5 million in the year ended December 31, 2009 as compared to $138.2 million in the year ended

December 31, 2008. As a percentage of revenue, SG&A costs were 16% in 2009 as compared to 11% in 2008. For comparative purposes, it is important to note that 2008 only included eight months of SG&A expenses related to Graphit Kropfmühl, as compared to twelve months included in 2009. In addition, 2008 SG&A costs had the benefit of non-recurring pension income in the amount of $9.9 million. On a comparable basis, lower costs were attributable to the headcount reductions taken across all divisions and at the Corporate headquarters. Personnel expenses increased from $74.5 million in the year ended December 31, 2008 to $77.0 million in the year ended December 31, 2009, due to the aforementioned pension income which lowered the personnel expenses in 2008 from a normalized level of $84.4 million. Excluding salaries and bonus, which declined from $51.3 million in 2008 to $45.0 million in 2009, the largest portion of expense within personnel costs relates to stock based compensation. The equity settled portion of this declined from $16.8 million to $11.5 million. However, a new cash-settled plan was approved at the 2009 Annual General Meeting and this accounted for an additional $3.6 million in personnel expense in 2009. The Company incurs professional fees from global service providers. Cost containment measures instituted within all business units lowered professional fees during the year ended December 31, 2009. Professional fees were $17.3 million in 2009 as compared to $22.0 million in 2008, a 21% decline. This amount includes audit fees, legal fees, recruiting fees, directors' fees as well as consultants used in all operations. Research and development expense increased from $7.5 million in the year ended December 31, 2008 to $10.0 million in the year ended December 31, 2009. The significant investment in R&D was related to the development of improved casting technology within Engineering Systems. All other SG&A expenses, such as travel and entertainment, insurance, occupancy, communication and bank fees decreased to $33.2 million in the year ended December 31, 2009 from $34.2 million in the year ended December 31, 2008.

Restructuring and asset impairment expenses

Restructuring and asset impairment charges were $9.5 million in the year ended December 31, 2009 as compared to $50.0 million in 2008. An asset impairment charge of $46.0 million was recognized at Graphit Kropfmühl in 2008. In 2009, headcount reductions and facility closures were implemented globally as the businesses adapted to the slowing demand for products. These actions resulted in the $9.5 million charge.

Other income

Other income for the year ended December 31, 2009 was primarily government grant income of $4.0 million within Engineering Systems and Graphit Kropfmühl. This compares to government grant income of $4.4 million largely attributable to the Berlin facility in 2008. Additional other income in 2008 included a contract cancellation fee of $1.8 million that was paid by an Engineering Systems Division customer.

Operating income

AMG's operating income decreased to $20.6 million in the period ended December 31, 2009 from $78.9 million in the year ended December 31, 2008, a 74% decline. This was the result of the global recession which impacted all divisions in the Company.

Finance costs

The table below sets forth AMG's net finance costs for the periods ended December 31, 2009 and 2008. Interest expense declined as a result of the lower interest rates on most floating rate debt. The decline in interest rates was offset by increased debt due to the need to fund operations.

	Period ended December 31	
	(In thousands of US Dollars)	
	2009	2008
Finance expense	18,419	20,077
Finance (income)	(3,587)	(6,414)
Foreign exchange loss	2,418	5,071
Finance costs, net	17,250	18,734

Income taxes

The provision for income taxes decreased to $15.2 million for the year ended December 31, 2009 from $37.0 million for the period ended December 31, 2008. The decline in provision is primarily a result of the Company's lower pre-tax income. In 2009, the Company had a pre-tax loss, but still recorded a tax provision as the Company was unable to recognize a financial accounting tax benefit for the Company's share of Timminco's losses since September 30 or for certain losses generated in the US and Germany. This treatment was adopted because of the Company's historical net operating loss position of the subsidiaries where the expenses were recorded.

Discontinued operations

On September 28, 2009, one of Timminco's lenders, Safeguard International Fund (SIF), exercised its option to convert debt into equity. AMG had the right to retain its ownership interest upon SIF's conversion but opted not to exercise this option. This conversion reduced AMG's ownership percentage from 50.8% to 47.9%, thus triggering a deemed disposal. The loss of control is accounted for under IFRS 5 guidelines as a discontinued operation. This has the effect of recognizing all activity occurring before the deemed disposal in one line item in the income statement and a related restatement of prior year results. This activity amounted to a loss of $53.3 million for the nine month period ended September 28, 2009 and a loss of $21.2 million for the twelve months ended December 31, 2008. Immediately before the classification of Timminco as a discontinued operation, the recoverable amount was estimated for certain items of property, plant and equipment and no impairment loss was identified. Following the classification, an additional loss on deemed disposal of $1.1 million was recognized resulting from the dilution of the Company's share in Timminco.

Net (loss) income

The Company recorded a net loss attributable to shareholders of the parent of $75.6 million in the year ended December 31, 2009 as compared with a net income attributable to shareholders of the parent of $14.5 million in the year ended December 31, 2008. This performance is primarily the result of Timminco's equity losses as well as the loss recorded on discontinued operations.

Liquidity and Capital Resources

Sources of liquidity

The Company's sources of liquidity include cash and cash equivalents, cash from operations and amounts available under credit facilities. At December 31, 2009, the Company had $117.0 million in cash and cash equivalents and $79.9 million available on its revolving credit facility. Changes in the Company's liquidity were due primarily to the decline in operations for the year. Refer to note 34 in the consolidated financial statements for management's risk management policies, especially related to liquidity risk.

	2009	2008
Non-current loans and borrowings	168,319	138,990
Current loans and borrowings	35,477	93,043
Total debt	203,796	232,033
Cash	117,016	143,473
Net debt	86,780	88,560

The table below summarizes the Company's net cash provided by or used in its operating activities, investing activities and financing activities for the years ended December 31, 2009 and 2008.

	2009	2008
Net cash provided by (used in):		
Operating activities	(2,091)	123,353
Investing activities	(90,181)	(220,690)
Financing activities	62,638	79,574

Cash flows

Net cash used in operating activities was $2.1 million in the year ended December 31, 2009 as compared to cash generated from operations of $123.4 million in the year ended December 31, 2008, a $125.5 million decline. The decrease was primarily due to a decline in EBITDA of $96.2 million and a $26.1 million increase in working capital, as compared to 2008.

Net cash used in investing activities decreased to $90.2 million in the year ended December 31, 2009 from $220.7 million in the year ended December 31, 2008, a $130.5 million decline. The decline was due to an overall culture of cash conservation within the Company which limited capital for the year. The largest expenditures in the year ended December 31, 2009 included:

- $33.9 million of capital (both debt and equity) infused into Timminco
- $5.1 million of capital for a silicon metal furnace
- $1.8 million to expand production in Berlin
- $6.2 million in maintenance capital
- $32.0 million invested at Timminco prior to its deemed disposal

The remaining capital expenditures related to other smaller projects.

Cash provided by financing activities was $62.6 million in the year ended December 31, 2009 as compared to $79.6 million in the year ended December 31, 2008. The cash provided by financing activities was lower in 2009 due to normal repayments of long-term debt which occurred in 2009.

Outlook

The market continues to show signs of improvement. The Advanced Materials Division is currently benefitting from increases in specialty metals prices and demand, albeit from low levels. The Engineering Systems Division entered 2010 with a substantially reduced backlog compared to 2009. Requests for new orders are increasing from mid-year 2009 low levels, but the first half of 2010 will continue to be challenging. GK's end markets are also gradually improving, but this growth is not expected to accelerate until the second half of the year. AMG remains positive on long term growth prospects for its core markets of aerospace, energy, infrastructure and specialty metals and chemicals, however most of the near term growth is expected to occur later in the year. AMG's liquidity remained strong in 2009 and is expected to be stable throughout 2010. Given the slow rebound, management will continue to review expansion of the workforce and capital expenditures with the objective of being properly prepared for any rebound. The size of the workforce is expected to remain fairly constant while capital spending may increase slightly as the year progresses and cash flows improve. Overall, AMG expects its portfolio of metals based technology businesses to produce results ahead of 2009 levels.

Financial Statements

Consolidated Income Statement

For the year ended December 31	Note	2009	2008
In thousands of US Dollars			*Restated
Continuing operations			
Revenue	7	867,447	1,280,120
Cost of sales		701,860	1,017,751
Gross profit		165,587	262,369
Selling, general and administrative expenses		137,537	138,227
Restructuring expense	29	7,782	2,879
Asset impairment expense	13, 14	1,718	47,119
Environmental expense	29	3,998	1,433
Other expenses		173	2,430
Other income	8	(6,182)	(8,588)
Operating profit		20,561	78,869
Finance expense		18,419	20,077
Finance income		(3,587)	(6,414)
Foreign exchange loss		2,418	5,071
Net finance costs	10	17,250	18,734
Share of (loss) gain of associates	15	(31,958)	547
(Loss) profit before income tax		(28,647)	60,682
Income tax expense	11	15,205	36,962
(Loss) profit for the year from continuing operations		(43,852)	23,720
Loss after tax for the year from discontinued operations		(54,378)	(21,162)
(Loss) profit for the year		(98,230)	2,558
Attributable to:			
Shareholders of the Company		(75,642)	14,453
Minority interests		(22,588)	(11,895)
		(98,230)	2,558
(Loss) earnings per share			
Basic (loss) earnings per share	23	(2.82)	0.54
Diluted (loss) earnings per share	23	(2.82)	0.53
(Loss) earnings per share from continuing operations			
Basic (loss) earnings per share from continuing operations	23	(1.77)	0.94
Diluted (loss) earnings per share from continuing operations	23	(1.77)	0.92

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

* Certain numbers shown here do not correspond to the 2008 financial statements and reflect adjustments made as detailed in note 6.

Consolidated Statement of Comprehensive Income

For the year ended December 31	Note	**2009**	2008
In thousands of US Dollars			
(Loss) profit for the period		(98,230)	2,558
Exchange differences on translation of foreign operations	22	7,908	(23,578)
Net gain (loss) on cash flow hedges, net of tax	22	13,435	(12,958)
Other comprehensive loss	22	(76,887)	(33,978)
Attributable to:			
Shareholders of the Company		(57,731)	(10,542)
Minority interest		(19,156)	(23,436)

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

Consolidated Statement of Financial Position

As at December 31	Note	2009	2008
In thousands of US Dollars			
Assets			
Property, plant and equipment	13	211,022	313,470
Intangible assets	14	28,253	47,060
Investments in associates	15	34,794	15,700
Derivative financial instruments	35	1,718	–
Deferred tax assets	11	10,912	29,181
Restricted cash	20	13,263	15,889
Notes receivable	39	5,542	2,132
Other assets	18	11,980	11,612
Total non-current assets		317,484	435,044
Inventories	16	193,378	318,793
Trade and other receivables	17	147,787	173,422
Derivative financial instruments	35	4,954	6,393
Other assets	18	30,359	52,804
Short term investments	19	–	95
Cash and cash equivalents	21	117,016	143,473
Total current assets		493,494	694,980
Total assets		810,978	1,130,024
Equity			
Issued capital		725	724
Share premium		379,518	379,297
Other reserves		31,284	(2,215)
Retained earnings (deficit)		(198,897)	(123,110)
Equity attributable to shareholders of the Company		212,630	254,696
Minority interests		15,793	57,115
Total equity	22	228,423	311,811
Liabilities			
Loans and borrowings	24	168,319	138,990
Employee benefits	27	91,358	103,176
Provisions	29	14,862	12,841
Government grants	30	669	291
Other liabilities	32	7,984	9,245
Derivative financial instruments	35	1,339	3,530
Deferred tax liabilities	11	26,395	56,013
Total non-current liabilities		310,926	324,086
Loans and borrowings	24	3,464	3,021
Short term bank debt	26	32,013	83,566
Related party debt	25	–	6,456
Government grants	30	234	8,360
Other liabilities	32	46,179	53,882
Trade and other payables	33	69,791	156,697
Derivative financial instruments	35	6,048	15,419
Advance payments	7	54,764	94,049
Unearned revenue	31	–	35,624
Current taxes payable	11	36,050	14,708
Provisions	29	23,086	22,345
Total current liabilities		271,629	494,127
Total liabilities		582,555	818,213
Total equity and liabilities		810,978	1,130,024

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 22)	Share premium	Other reserves (note 22)	Retained deficit	Total	Minority interests	Total equity
Balance at January 1, 2008	722	392,304	(9,923)	(137,439)	245,664	64,133	309,797
Foreign currency translation	–	–	(12,037)	–	(12,037)	(11,541)	(23,578)
Loss on cash flow hedges, net of tax	–	–	(12,958)	–	(12,958)	–	(12,958)
Net loss recognized directly in equity	–	–	(24,995)	–	(24,995)	(11,541)	(36,536)
Profit (loss) for the year	–	–	–	14,453	14,453	(11,895)	2,558
Total comprehensive (loss) income for the year	–	–	(24,995)	14,453	(10,542)	(23,436)	(33,978)
Issuance of shares for exercise of share-based payments	2	3,006	(1,151)	–	1,857	–	1,857
Accretion of convertible debt	–	(84)	–	–	(84)	(83)	(167)
Share-based payment activity at subsidiary	–	–	1,311	–	1,311	1,626	2,937
Equity-settled share-based payments			16,720	–	16,720	–	16,720
Acquisition of minority interest	–	–		–	–	14,875	14,875
Other	–	(15,929)	15,823	(124)	(230)	–	(230)
Balance at December 31, 2008	724	379,297	(2,215)	(123,110)	254,696	57,115	311,811
Balance at January 1, 2009	724	379,297	(2,215)	(123,110)	254,696	57,115	311,811
Foreign currency translation	–	–	4,456	–	4,456	3,452	7,908
Gain (loss) on cash flow hedges, net of tax	–	–	13,455	–	13,455	(20)	13,435
Net income recognized directly in equity	–	–	17,911	–	17,911	3,432	21,343
Results from continuing operations	–	–	–	(47,462)	(47,462)	3,610	(43,852)
Results from discontinuing operations	–	–	–	(28,180)	(28,180)	(26,198)	(54,378)
Loss for the year	–	–	–	(75,642)	(75,642)	(22,588)	(98,230)
Total comprehensive income (loss) for the year	–	–	17,911	(75,642)	(57,731)	(19,156)	(76,887)
Issuance of shares to Supervisory board	1	400	–	–	401	–	401
Share-based payment activity at subsidiary	–	–	1,559	–	1,559	–	1,559
Equity-settled share-based payments	–	–	14,029	–	14,029	–	14,029
Deemed disposal of minority interest	–	–	–	–	–	(22,166)	(22,166)
Other	–	(179)	–	(145)	(324)	–	(324)
Balance at December 31, 2009	725	379,518	31,284	(198,897)	212,630	15,793	228,423

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

Consolidated Statement of Cash Flows

For the year ended December 31	Note	2009	2008
In thousands of US Dollars			*Restated
Cash flows (used in) from operating activities			
(Loss) profit for the period from continuing operations		(43,852)	23,720
Loss for the period from discontinued operations	6	(54,378)	(21,162)
(Loss) profit for the period		(98,230)	2,558
Adjustments to reconcile (loss) profit to net cash flows:			
Non-cash:			
Depreciation and amortization	13, 14	23,758	24,877
Amortization of purchase accounting adjustment to inventory		–	8,178
Restructuring expense	29	7,782	2,879
Asset impairment loss	13, 14	1,718	47,119
Environmental expense	29	3,998	1,433
Net finance costs	10	17,250	18,734
Share of loss of associates	15	31,958	(547)
Loss (gain) on sale or disposal of property, plant and equipment	13	6,253	(547)
Equity-settled share-based payment transactions	28	13,729	16,909
Cash-settled share-based payment transactions		3,605	–
Income tax expense	11	15,205	36,962
Working capital adjustments			
Change in inventories		45,338	(77,804)
Change in trade and other receivables		(564)	53,166
Change in prepayments		12,490	(10,015)
Change in trade payables, provisions, and other liabilities		(97,919)	20,812
Change in government grants	30	(7,783)	(8,184)
Other		5,934	(7,986)
Interest paid	10	(15,289)	(14,949)
Interest received	10	2,468	5,922
Income tax paid, net	11	(9,711)	(23,104)
Cash flows from discontinued operations	6	35,919	26,940
Net cash flows (used in) from operating activities		(2,091)	123,353
Cash flows used in investing activities			
Proceeds from sale of property, plant and equipment	13	129	858
Acquisition of associates	5	–	(10,432)
Acquisition of subsidiaries (net of cash acquired of $1,671)	5	–	(69,993)
Acquisition of property, plant and equipment and intangibles	13,14	(25,532)	(68,429)
Related party loans	39	(5,262)	–
Investments in associates	39	(28,943)	–
Change in restricted cash	20	1,410	(286)
Other		56	(6,923)
Cash flows used in discontinued operations	6	(32,039)	(65,485)
Net cash flows used in investing activities		(90,181)	(220,690)
Cash flows from financing activities			
Proceeds from issuance of debt	24, 26	30,175	37,690
Repayment of borrowings	24, 26	(15,785)	(7,754)
Other		670	838
Cash flows from discontinued operations	6	47,578	48,800
Net cash flows from financing activities		62,638	79,574
Net decrease in cash and cash equivalents		(29,634)	(17,763)
Cash and cash equivalents at January 1		143,473	172,558
Effect of exchange rate fluctuations and consolidation changes on cash held		3,177	(11,322)
Cash and cash equivalents at December 31	21	117,016	143,473

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

* Certain numbers shown here do not correspond to the 2008 financial statements and reflect adjustments made as detailed in note 6.

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 NV" or "AMG") for the year ended December 31, 2009 were authorized for issuance in accordance with a resolution of the Supervisory Board on March 31, 2010.

AMG is domiciled in the Netherlands. The address of the Company's registered office is WTC Amsterdam, Toren C, Strawinskylaan 1343, 1077 XX Amsterdam. The consolidated financial statements of the Company as at and for the year ended December 31, 2009 comprise the Company and the companies that comprise its subsidiaries (together referred to as the "Group") and the Company's interest in associates and jointly controlled entities.

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

AMG is organized under three reportable segments: Advanced Materials, Engineering Systems and Graphit Kropfmühl. As at September 28, 2009, the Company's ownership of Timminco went from 50.8% to 47.9%, resulting in a deemed disposal.

The subsidiaries that make up these three operating segments are primarily located in Europe, North America and South America. The Advanced Materials segment manufactures and sells high-quality specialty metals, alloys and metallic chemicals which are essential to the production of high-performance aluminum and titanium alloys, superalloys, steel and certain non-metallic materials for various applications in the aerospace, automotive, energy, electronics, optics, chemicals, construction and other applications (see note 4). The Engineering Systems segment designs, engineers and produces advanced vacuum furnace systems and operates vacuum heat treatment facilities. It sells vacuum furnace systems to customers in the aerospace, energy (including solar and nuclear), transportation, electronics, superalloys and specialty steel industries. The Company also provides vacuum heat services on a tolling basis to customers through its "Own & Operate" facilities equipped with vacuum heat treatment furnaces. Graphit Kropfmühl's segment extracts, processes and refines natural crystalline graphite for a wide range of energy saving industrial applications; and manufactures metallurgical silicon used in the chemical industry as a basic element for silicone chemistry, microelectronics and solar energy.

Timminco, which was deconsolidated as of September 28, 2009, primarily produces silicon metal, including solar grade silicon, which improves conductivity, provides corrosion resistance and increases harness for the electronic, solar-photovoltaic, chemical and aluminum industries. See note 6. Timminco's activity prior to the loss of control is recognized as discontinued operations and the comparable periods in the income statement and statement of cash flows have been restated to reflect this change.

These financial statements represent the consolidated financial statements of the Company. These consolidated financial statements as of December 31, 2009 present the consolidated financial position, results of operations and cash flows of the Company and its subsidiaries.

The parent company financial statements are prepared in accordance with part 9, Book 2, article 402 of the Netherlands Civil Code. The prior year comparative information in the consolidated income statement, and consolidated statement of cash flows have been restated to reflect a change in ownership of Timminco. The Company's ownership interest was reduced from 50.8% to 47.9% resulting in a deemed disposal. In accordance with IFRS 5 the Company reclassified Timminco's activity to discontinued operations and restated comparative figures. The deconsolidation of Timminco assets and liabilities has been recorded in the opening balance to prevent differences in flows from movement schedules such as provisions, intangible assets, fixed assets and the Company's profit and loss for the year.

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 reporting dates. The following table includes all entities in which AMG has any ownership interest.

		Percentage held (directly or indirectly) by Company	Percentage held (directly or indirectly) by Company
Name	Country of incorporation	**December 31, 2009**	December 31, 2008
ABS Apparate-und Behälterbau Staßfurt GmbH	Germany	49	24.96
ALD Holcroft Vacuum Technologies Co.	United States	50	50
ALD Lindgren Inc.	Canada	–	100
ALD Industrie-und Montagepark Staaken GmbH	Germany	51	51
ALD Own & Operate GmbH	Germany	100	100
ALD Technologies Polska S.z.o.o	Poland	100	100
ALD Thermal Treatment, Inc.	United States	100	100
ALD Thermo Technologies Far East Co., Ltd.	Japan	100	100
ALD Tratamientos Termicos S.A.	Mexico	100	100
ALD Vacuum Technologies GmbH	Germany	100	100
ALD Vacuum Technologies Inc.	United States	100	100
ALD Vacuum Technologies Ltd.	United Kingdom	100	100
ALD Vacuum Technologies Singapore PTE Ltd.	Singapore	100	–
ALD Vakuumnyje Technologii OOO	Russia	100	100
AMG Advanced Metallurgical Group Investment BV	Netherlands	100	100
AMG Brazilian Holding BV	Netherlands	100	–
AMG Coating Technologies GmbH	Germany	100	100
AMG Conversion Ltd	Canada	100	–
AMG DLC Coating GmbH	Germany	50	50
AMG Euro Holdings CV	Netherlands	100	–
AMG Invest GmbH	Germany	100	100
Applied Magnesium International Limited***	British Virgin Islands	42.5	–
Aurora Partnership	United States	–	50.34
Bécancour Silicon Inc.	Canada	42.5	50.34
Benda-Lutz-Alpoco Sp.z o.o.	Poland	51	51
Bogala Graphite Lanka Plc.*	Sri Lanka	79.52	79.52
Bostlan S.A.	Spain	25	25
Branwell Graphite Ltd.	United Kingdom	79.52	79.52
Companhia Industrial Fluminense Mineracao S.A.	Brazil	100	–
Korin Grundstücksgesellschaft GmbH & Co. Projekt 30 KG	Germany	94.9	94.9
Fundo Holdings AS	Norway	42.5	50.34
Fundo Wheels A.S.**	Norway	–	50.34
Edelgraphit GmbH	Germany	79.52	79.52
EsteR-Technologie GmbH	Germany	50.2	50.2
EsteR-Separation GmbH	Germany	60	60
Fair Deal Trading (Pvt.) Ltd.*	Sri Lanka	79.52	79.52
FNE Forschungsinstitut für Nichteisen-Metalle GmbH	Germany	100	100
Furnaces Nuclear Applications Grenoble S.A.	France	100	100
GfE Fremat GmbH	Germany	100	100
GfE Gesellschaft für Elektrometallurgie mbH	Germany	100	100
GfE Materials Technology Inc.	United States	100	100
GfE Metalle und Materialien GmbH	Germany	100	100
GfE Unterstützungskasse GmbH	Germany	100	100
GK Asia Ltd. (formerly Mutual Sources Ltd)	China	79.52	79.52
GK Graphit Kropfmühl GmbH	Germany	79.52	79.52
Graphit Kropfmühl AG	Germany	79.52	79.52
Graphite Týn spol. s r.o.	Czech Republic	79.52	79.52
Heidenreich and Harbeck AG	Germany	–	19.01

Name	Country of incorporation	Percentage held (directly or indirectly) by Company December 31, 2009	Percentage held (directly or indirectly) by Company December 31, 2008
Industrial Adhesives Limited	Canada	–	50.34
London & Scandinavian Metallurgical Co Limited	United Kingdom	100	100
LSM Brasil S.A. (formerly Companhia Industrial Fluminense)	Brazil	100	100
LSM Holdings BV	Netherlands	100	–
LSM (Jiaxing) Co Ltd	China	100	100
Metallurg Delaware Holding Company	United States	100	100
Metallurg Europe Limited	United Kingdom	100	100
Metallurg European Holdings LLC	United States	100	100
Metallurg Holdings Corporation	United States	100	100
Metallurg Holdings Inc.	United States	100	100
Metallurg, Inc.	United States	100	100
Metallurg International Holdings LLC	United States	100	100
Metallurg Mexico S.A. de C.V.	Mexico	100	100
Metallurg Servicios S.A. de R.L. de C.V.	Mexico	100	100
Metallurg Vanadium Corporation	United States	100	100
New Jersey Renewables Corporation	United States	100	–
NorWheels AS	Norway	42.5	50.34
Produits Chimiques de Lucette S.A	France	100	100
Qingdao Kropfmuehl Graphite Co. Ltd.	China	79.52	79.52
Qingdao Kropfmuehl Trading Co. Ltd.	China	79.52	79.52
RW silicium GmbH	Germany	79.52	79.52
Share Investments (Pvt.) Ltd.	Sri Lanka	79.52	79.52
Shieldalloy Metallurgical Corporation	United States	100	100
Silmag DA	Norway	50	50
Société Industrielle et Chimique de l'Aisne	France	100	100
Sudamin France S.A.S	France	100	100
Sudamin Holdings SPRL	Belgium	100	100
Sudamin IT S.A.	France	100	100
Sudamin SPRL	Belgium	100	100
Technologie-und Gründer-zentrum GmbH	Germany	2.5	2.5
The Aluminium Powder Company Limited	United Kingdom	100	100
Timminco Adhesives Corporation	United States	42.5	50.34
Timminco Colorado Corporation	United States	–	50.34
Timminco Corporation	United States	42.5	50.34
Timminco de Mexico S.A. de CV	Mexico	–	50.34
Timminco Holdings Corporation	United States	42.5	50.34
Timminco Limited	Canada	42.5	50.34
Timminco Properties Inc.	United States	42.5	50.34
Timminco Pty Limited	Australia	–	50.34
Timminco Silicon Holdings Inc	Canada	42.5	50.34
Timminco Technologies Corporation	United States	42.5	50.34
Timminco BV	Netherland	42.5	50.34
Timminco S.A.	Switzerland	42.5	50.34
VACUHEAT GmbH	Germany	100	100
VACUHEAT Verwaltungs GmbH	Germany	100	100

* Bogala Graphite and Fair Deal Trading are 90.4% owned by Graphit Kropfmühl, of which the Company owns 79.52%. Therefore, the Company indirectly holds 71.9% of these companies

** Fundo Wheels AS formally declared bankruptcy on January 12, 2009, the investment in Fundo Wheels was fully impaired as of December 31, 2008 and the carrying amount of the investment was reduced to zero.

*** Applied Magnesium International Limited is 19.5% owned by Timminco Limited, of which the Company owns 42.5%. Therefore, the Company indirectly holds 8.9% of this company.

One company is not listed above and is not consolidated using the equity method as no decisive influence can be exerted on the business and financial policy of the company due to political reasons.

2. Basis of preparation

(a) Statement of compliance

EU law (IAS Regulation EC 1606/2002) requires that the annual Consolidated Financial Statements of the Company for the year ending December 31, 2009 be prepared in accordance with accounting standards adopted and endorsed by the European Union ("EU") further to the IAS Regulation (EC 1606/2002) (further referred to as "IFRS, as endorsed by the EU").

The consolidated financial statements of AMG NV and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as of December 31, 2009 as adopted by the EU.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and financial instruments held for trading, which are measured at fair value. The carrying value of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at cost, are adjusted to record changes in the fair value attributable to the risks that are being hedged in effective hedge relationships. The methods used to measure fair values are discussed further in note 3.

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.

(c) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, 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 judgments 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—discontinued operations
- note 7—furnace construction contract revenue
- note 11—deferred tax assets
- note 14—measurement of the recoverable amounts of assets and cash-generating units
- note 27—measurement of defined benefit obligations
- note 28—measurement of share-based payments
- note 29—provisions
- note 35—valuation of financial instruments

Key sources of estimation uncertainty

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

Furnace construction contract revenue

Revenue related to furnace construction contracts is recorded based on the estimated percentage of completion of contracts as determined by management. Significant management judgement is required to determine this percentage of completion. Total percentage of completion revenue for the year ended December 31, 2009 was $200,522 (2008: $312,454).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and expense already recorded.
The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective subsidiary's domicile.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. The carrying value of recognized tax losses at December 31, 2009 was $6,956 (2008: $9,718). There are significant unrecognized tax losses as described in more detail in note 11.

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

Goodwill

The determination of whether goodwill is impaired requires an estimate of the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill has been allocated. The recoverable amount is defined as the higher of a cash-generating unit's fair value less costs to sell and its value in use. For Advanced Materials, ALD and Graphit Kropfmühl, the recoverable amount was determined as the value in use. The value in use requires the entity to estimate the future cash flows expected to arise from the cash-generating units or group of cash-generating units and to discount these cash flows with a risk adjusted discount rate. The carrying amount of goodwill at December 31, 2009 was $23,325 (2008: $37,108).

Measurement of defined benefit obligations

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The net employee liability at December 31, 2009 was $91,358 (2008: $103,176).

Measurement of share-based payments

The group measures the cost of cash-settled and 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. Equity-settled transactions maintain the same fair value throughout the life of the option, while the fair value of cash-settled transactions are remeasured at each reporting date. The assumptions and model used in determining the fair value of share-based payments are disclosed in note 28.

Provisions

Provisions have been recorded with respect to environmental, restructuring, warranties, project costs, partial retirement and other liabilities. These provisions require management's judgment with respect to the amounts recorded and the expected timing of payments. Amounts or timing of payments may change due to changes in circumstances or execution of plans related to these liabilities. As at December 31, 2009, the provisions balance was $37,948 (2008: $35,186).

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 reporting 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 include the accounts of all entities when a direct or indirect controlling interest exists through voting rights or other contractual rights at the reporting 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.

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

If the Company loses control over a subsidiary, it:

- derecognizes the assets and liabilities of the subsidiary
- derecognizes the carrying amount of any non-controlling interest
- derecognizes cumulative translation differences recorded in equity, based on the change in ownership percentage
- maintains the book value of the retained investment
- recognizes the differences between the previous investment value and the revised investment value as part of the loss on discontinued operations

Basis of consolidation prior to January 1, 2009

The consolidated financial statements of the Company include the accounts of all entities when a direct or indirect controlling interest exists through voting rights or other contractual rights at the reporting 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. The minority interests are disclosed separately in the consolidated statement of income and in the equity section of the consolidated statement of financial position.

(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 15 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 Company 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 Company 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 Company purchases assets from the joint venture, the Company 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, Mexico and Brazil, where the US Dollar is used as the functional currency. The determination of functional currency is based on appropriate economic and management indicators.

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

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

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting 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. On consolidation, exchange differences arising from the translation of the net investments in foreign operations are taken directly to equity. The Company treats certain intercompany loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. When a foreign entity is sold, such exchange differences are recognized in the income statement as a part of gain or loss on the sale.

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

The Company has no foreign operations in hyper-inflationary economies. The Company does not hedge its net investments in foreign operations.

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

Restricted cash, which in whole or in part is restricted for specific purposes including guarantees, is included in a separate line item within non-current assets in the statement of financial position.

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

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

Notes receivable are financial instruments with fixed and determinable payments that are not quoted in an active market. They are initially recorded at the fair value of the note plus direct issuance costs, if any. After initial recognition, notes receivable are subsequently measured at amortized cost using the effective interest method. Convertible notes receivable are bifurcated, if necessary, into the note receivable and the derivative instrument. The derivative instrument is valued first at inception, with the remaining balance being attributed to the note.

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.

Short term bank debt, trade and other payables and unearned revenue are accounted for at cost.

Related party debt is convertible debt and the liability is recognized as the fair value of the liability portion of the note. In respect of the liability component of convertible notes, fair value is determined using the market rate of interest as determined by reference to similar liabilities that do not have a conversion option.

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 reporting date. 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 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 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. They are categorized as financial assets or financial liabilities at fair value through profit or loss.

(d) Derecognition of financial assets and liabilities

(i) 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. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset 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.

(ii) Financial liabilities

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

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

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Company capitalizes borrowing costs for all eligible assets where construction was commenced on or after January 1, 2009. The Company continues to expense borrowing costs relating to construction projects that commenced prior to January 1, 2009.

(ii) Subsequent costs

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

(iii) Depreciation

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

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

• buildings and leasehold improvements	2-50 years
• machinery	2-20 years
• mining costs	4-20 years
• office furniture and equipment	3-13 years
• transportation equipment	3-7 years
• finance leases	15-34 years

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

The depreciation of certain mining costs is linked to the production levels from the mine. Therefore, these assets are amortized using a units of production basis. Using that basis currently approximates a 20 year life of the mine.

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.

(f) Business Combinations and Goodwill

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

Acquisitions on or after January 1, 2005

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

Fair value of identifiable assets is determined as follows:

(i) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant and equipment 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 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 or 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, capitalized lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

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

The Company also enters into operating leases under which the leased assets are not recognized on the Company's statement of financial position. 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 realizable value. The cost of inventories is determined based on the average cost and specific identification methods, and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of finished goods inventory and work in process, cost includes materials and labor as well as an appropriate share of production overhead based on normal operating capacity.

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

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

(j) Impairment

(i) Financial assets

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

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

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

(ii) Non-financial assets

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

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

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

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

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

(iii) Associates

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its associates. The Company determines at each reporting date whether there is any objective evidence that an investment in any 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 in the period in which the obligation was incurred.

(ii) Defined benefit plans

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

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

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

All actuarial gains and losses as at January 1, 2005, the date of transition to IFRS, were recognized. Subsequent to January 1, 2005 a corridor approach is used for actuarial gains and losses that arise 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 current and previous officers of the Company (see note 27).

(iii) Short term benefits

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

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

(iv) Share-based payment transactions

AMG and Timminco have stock-based compensation plans, which are described in note 28.

The cost of equity-settled transactions, related to these stock-based compensation plans, is measured by reference to the fair value at the date on which they are granted. The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield, and other assumptions. The assumptions and models used are described in note 28.

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 using a graded vesting methodology, 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 23).

(v) Performance share unit plan

In May 2009, the Annual General Meeting of Shareholders approved and the Company implemented a performance share unit plan (PSUP) for certain members of the Company management. Under the PSUP, each manager receives an award of an approved value of performance share units ("PSUs"). The issue price of each PSU is equal to the weighted average share price at which common shares of the Company trade on the Euronext Amsterdam Stock Exchange during the 10-day period subsequent to the annual earnings release. The PSUs vest after three years, except in the first two years where transitional vesting provisions are in place. The vesting is subject to certain return on capital employed (ROCE) performance requirements. The value of the PSUs, when converted to cash, will be equivalent to the market value of the common shares at the time the conversion takes place.

The value of the outstanding PSUs, remeasured to fair value as at December 31, 2009 was $3,639.

(l) Provisions

Provisions are recognized when:

- the Company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made for the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(i) Environmental remediation costs and recoveries

Certain subsidiaries of the Company are faced with a number of 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.

A provision is made for shutdown, restoration and environmental rehabilitation costs in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the reporting date. The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is included in finance costs. The provision is reviewed on an annual basis for changes to obligations, legislation or discount rates that effect change in cost estimates or the 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 statement of financial position, 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.

Additional environmental remediation costs and provisions may be required if the Company were to decide to close certain of its sites. Certain of the Company's restructuring programs have involved closure of several sites to date. Remediation liabilities are recognized when the site closure has been announced. In the opinion of the Company, it is not possible to estimate reliably the costs that would be incurred on the eventual closure of its continuing sites, where there is no present obligation to remediate, because it is neither possible to determine a time limit beyond which the sites will no longer be operated, nor what remediation costs may be required on their eventual closure.

(ii) Restructuring

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

(iii) Warranty

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

(m) Convertible Debt

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.

(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

Certain furnace construction contracts are reported using the percentage of completion (POC) method. Cumulative work done to date, including the Company's share of profit, is reported on a pro rata basis according to the percentage completed. The percentage of completion is measured as the ratio of contract costs incurred for work performed so far to total contract costs (cost-to-cost method). Contracts are reported in trade receivables and advance payments, as "gross amount due to/from customers for/from contract work (POC)". If cumulative work done to date (contract costs plus contract net profit) of contracts in progress exceeds progress payments received, the difference is recognized as an asset and included in trade and other receivables in the consolidated statement of financial position. If the net amount after deduction of progress payments received is negative, the difference is recognized as a liability and included in advance payments in the consolidated statement of financial position. 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

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

(o) Research and development

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

(p) Finance income and expenses

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

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

(q) Government grants

Certain subsidiaries receive government grants related to early retirement provisions and workforce creation. Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. There are two types of grants. For grants that 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. For grants that relate to investment in property, the liability is reduced as money is spent on capital expansion.

(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 reporting date, in the countries where the Company generates taxable income. 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 reporting 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 tax assets are recognized for all deductible temporary differences, carryforwards of unused tax credits 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 carryforwards of unused tax credits and unused tax losses can be utilized except:

- where the deferred 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 tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting 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 tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting 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 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 reporting date.

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

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

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

- where the deferred 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 statement of financial position.

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

(s) Segment reporting

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

(t) New and amended standards

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The following new standards, amendments to standards and interpretations are effective for the year ended December 31, 2009. If applicable, these standards and interpretations have been applied in preparing these consolidated financial statements:

- IFRS 7 *Financial Instruments: Disclosures* requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 34.
- IAS 1 *Revised Presentation of Financial Statements* separates owner and non-owner changes in equity and was effective on or after January 1, 2009. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. The revision also introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company has elected to present two statements.
- IAS 23 *Borrowing Costs* requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The Company's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional requirements in the Standard, the Company adopted the standard on a prospective change. Accordingly, borrowing costs are capitalized on qualifying assets with a commencement date on or after January 1, 2009. Any assets in progress prior to January 1, 2009 did not qualify for capitalizing borrowing costs. During the 12 months ended December 31, 2009, the Company had no qualifying assets.
- IAS 32 *Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation* were effective beginning January 1, 2009 and provide a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features. The Company has not issued such instruments to date and therefore has not been impacted by the amendment.
- IAS 39 *Financial Instruments: Recognition and Measurement—Eligible Hedged Items* addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The amendment has not impacted the financial position or performance as the Company has not entered into any such hedges.
- IFRIC 9 *Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement* requires that an entity assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The amendment has had no impact on the Company's consolidated financial statements as no such transactions currently exist.
- IFRIC 13 *Customer Loyalty Programmes* requires customer loyalty credits to be accounted for as separate components 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 amendment has had no impact on the Company's consolidated financial statements as no such transactions currently exist.
- IFRIC 15 *Agreement for the Construction of Real Estate* becomes effective beginning on or after January 1, 2009 and has to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statements of the Company.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* is to be applied prospectively. It provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The amendment has no impact on the Company's financial position as the Company has not entered into any such hedges.

(u) Future changes in accounting policies

The following new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2009. They may, however, be implemented in future years.

- IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* clarifies the scope and accounting for company cash-settled share-based payment transactions. The Company does not expect this revision to have a material impact on the Company.
- IFRS 3R *Business Combinations and IAS 27R Consolidated and Separate Financial Statements* introduce significant changes in the accounting for business combinations occurring after the effective date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore neither goodwill nor any gains/losses will be recognized. The amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The Company will adopt this standard effective January 1, 2010 and these changes will affect future acquisitions and transactions with minority interests.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* provides guidance on how to account for non-cash distributions to owners and is effective for annual periods beginning on or after July 1, 2009. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. This amendment is not expected to have any impact on the Company's financial position as it does not make any distributions to owners.

Improvement to IFRSs. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. As a result of this amendment, the Group amended its disclosure in note 4 Operating Segment Information.
- IFRS 8 *Operating Segments*: Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Company's chief operating decision maker does review segment assets and liabilities, the Company has continued to disclose this information in note 4.
- IAS 1 *Presentation of Financial Statements*: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Company analyzed whether the expected period of realization of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.
- IAS 7 *Statement of Cash Flows*: Explicitly states that only expenditures that result in recognizing an asset can be classified as a cash flow from investing activities. This amendment did not impact any presentation in the statement of cash flows.
- IAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell". The Company amended its accounting policy accordingly, which did not result in any change in the financial position.
- IAS 18 *Revenue*: Additional guidance to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity: has primary responsibility for providing the goods or service; has inventory risk; has discretion in establishing prices; and bears the credit risk. The Company has assessed its revenue arrangements against these criteria and does not anticipate any material changes to how it is recognizing revenue but has adapted its policies, as necessary.
- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*: Loans granted with no or low interest will not be exempt from the requirement to input interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Company as government assistance received are not loans but direct grants.
- IAS 23 *Borrowing Costs*: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one—the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Company has amended its accounting policy accordingly which did not result in any change in its financial position.

- IAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate 'fair value less costs to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the consolidated financial statements of the Company because the recoverable amount of its cash generating units is currently estimated using 'value in use'. The largest unit permitted for allocating goodwill, acquired in a business combination is the operating segment defined in IFRS 8. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.
- IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognized as an expense when the Company either has the right to access the goods or has received the service. This amendment has no impact on the Company because it does not enter into such promotional activities. The reference of there being rarely, if any persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed. The Company assessed the useful life of its intangible assets and concluded that the straight line method was still appropriate.

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRS 2 *Share-based Payment*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Errors*
- IAS 10 *Events after the Reporting Date*
- IAS 19 *Employee Benefits*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 28 *Investment in Associates*
- IAS 29 *Interest in Joint Ventures IAS 34 Interim Financial Reporting*
- IAS 39 *Financial instruments: Recognition and Measurement*
- IAS 40 *Investment Property*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*
- IFRIC 18 *Transfers of Assets from Customers*

4. Segment reporting

For management purposes, the Company is organized under three separate operating segments: Advanced Materials, Engineering Systems and Graphit Kropfmühl. Advanced Materials produces specialty metals, alloys and chemicals and has major production facilities in the UK, US, Germany, Brazil, and France. The Engineering Systems Division provides specialty engineering services and has major production facilities that are located in Germany, France and North America. During 2008, AMG acquired 79.52% of Graphit Kropfmühl AG ("GK"). The remainder of GK is publicly traded in Germany. Due to the management reporting structure and its product offerings, Graphit Kropfmühl is treated as a separate segment. GK produces specialty graphite and silicon metal and is located mainly in Europe and parts of Asia and Africa.

As at September 28, 2009, the Company's ownership of Timminco went from 50.8% to 47.9%, resulting in a deemed disposal. Timminco's activity prior to the loss of control is recognized as discontinued operations and the comparable periods in the income statement and statement of cash flows have been restated to reflect this change.

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

Advanced Materials—This division manufactures and sells high-quality specialty metals, alloys and metallic chemicals which are essential to the production of high-performance aluminum and titanium alloys, superalloys, steel and certain non-metallic materials for various applications in the aerospace, automotive, energy, electronics, optics, chemicals, construction, and other applications. Within Advanced Materials, six operating units are aggregated to create the reportable segment.

Engineering Systems—This division is the leading global supplier of processes and services supplying technologically-advanced vacuum furnace systems to customers in the aerospace, energy (including solar and nuclear), transportation, electronics, superalloys and specialty steel industries. Core specialties of the Engineering Systems Division are the development of processes and the design of plants, which are made to concept by partners in the supplier industry. Engineering Systems has two operating units and those two operating units are aggregated to create one reportable segment.

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

AMG Headquarters costs and assets are allocated sixty percent to Advanced Materials and forty percent to Engineering Systems in 2009 and 2008 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, 2009	Advanced Materials	Engineering Services	GK	Other and Eliminations	Total Continuing Operations	Timminco* (discontinued)	Total
Revenue							
Revenue from external customers	429,083	320,530	117,834	–	867,447	–	867,447
Intersegment revenue	3,363	5,834	–	(9,197)	–	–	–
Total revenue	432,446	326,364	117,834	(9,197)	867,447	–	867,447
Segment Results							
Operating (loss) profit	(28,761)	48,015	1,307	–	20,561	–	20,561
Finance income	5,816	6,283	99	(8,611)	3,587	–	3,587
Finance expense	9,153	12,282	5,595	(8,611)	18,419	–	18,419
Share of loss of associates	(2,758)	(1,702)	–	(27,498)	(31,958)	–	(31,958)
(Loss) profit before income tax	(34,929)	37,886	(4,106)	(27,498)	(28,647)	–	(28,647)
Income tax (benefit) expense	(1,365)	17,851	(1,281)	–	15,205	–	15,205
(Loss) profit for the year—continuing operations	(33,564)	20,035	(2,825)	(27,498)	(43,852)	–	(43,852)
Discontinued operations	–	–	–	–	–	(54,378)	(54,378)
(Loss) profit for the year	(33,564)	20,035	(2,825)	(27,498)	(43,852)	(54,378)	(98,230)
Statement of financial position							
Segment assets	546,829	374,549	100,731	(245,925)	776,184	–	776,184
Investments in associates	5,772	9,562	–	19,460	34,794	–	34,794
Total assets	552,601	384,111	100,731	(226,465)	810,978	–	810,978
Segment liabilities	231,969	289,455	177,750	(245,925)	453,249	–	453,249
Employee benefits	47,609	30,888	12,861	–	91,358	–	91,358
Provisions	15,509	19,815	2,624	–	37,948	–	37,948
Total liabilities	295,087	340,158	193,235	(245,925)	582,555	–	582,555
Other Information							
Capital expenditures for expansion—Tangible Assets	7,161	4,961	6,096	–	18,218	–	18,218
Capital expenditures for maintenance—Tangible Assets	4,141	1,173	850	–	6,164	–	6,164
Capital expenditures—Intangible Assets	244	601	305	–	1,150	–	1,150
Depreciation and Amortization	12,247	7,167	4,344	–	23,758	–	23,758
Asset impairment	–	1,718	–	–	1,718		1,718

Year ended December 31, 2008	Advanced Materials	Engineering Systems	GK**	Other and Eliminations	Total Continuing Operations *Restated	Timminco* (discontinued)	Total
Revenue							
Revenue from external customers	756,726	435,462	87,932		1,280,120	–	1,280,120
Intersegment revenue	448	2,383	–	(2,831)	–	–	–
Total revenue	757,174	437,845	87,932	(2,831)	1,280,120	–	1,280,120
Segment Results							
Operating profit (loss)	49,293	83,495	(53,919)		78,869	–	78,869
Finance income	10,623	10,898	306	(15,413)	6,414	–	6,414
Finance expense	13,098	17,742	4,650	(15,413)	20,077	–	20,077
Share of profit of associates	544	3	–		547	–	547
Profit (loss) before income tax	44,213	74,596	(58,127)		60,682	–	60,682
Income tax expense (benefit)	16,750	32,270	(12,058)		36,962	–	36,962
Profit (loss) for the year—continuing operations	27,463	42,326	(46,069)		23,720	–	23,720
Discontinued operations	–	–	–		–	(21,162)	(21,162)
Profit (loss) for the year	27,463	42,326	(46,069)	–	23,720	(21,162)	2,558
Statement of financial position							
Segment assets	542,682	423,289	99,060	(198,650)	866,381	247,943	1,114,324
Investments in associates	8,422	7,278	–	–	15,700	–	15,700
Total assets	551,104	430,567	99,060	(198,650)	882,081	247,943	1,130,024
Segment liabilities	246,220	374,741	115,550	(198,650)	537,861	141,990	679,851
Employee benefits	44,480	28,522	11,930	–	84,932	18,244	103,176
Provisions	9,255	16,908	2,546	–	28,709	6,477	35,186
Total liabilities	299,955	420,171	130,026	(198,650)	651,502	166,711	818,213
Other Information							
Capital expenditures for expansion—Tangible Assets	24,432	26,671	5,214		56,317		56,317
Capital expenditures for maintenance—Tangible Assets	7,335	2,303	1,726		11,364		11,364
Capital expenditures—Intangible Assets	–	674	74		748		748
Intangible assets acquired	–	1,277	16,874		18,151		18,151
Depreciation and Amortization	11,572	6,704	6,601		24,877		24,877
Asset impairment	–	1,073	46,046		47,119		47,119

* As at September 28, 2009, the Company's ownership of Timminco went from 50.8% to 47.9%, resulting in a deemed disposal. Timminco's activity prior to the loss of control is recognized as discontinued operations and the comparable periods in the income statement and statement of cash flows have been restated to reflect this change. See note 6.

** Graphit Kropfmühl was acquired in April 2008.

Geographical Information

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

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Revenues	Non-current assets	Revenues *Restated	Non-current assets
Germany	187,101	103,673	250,534	105,685
US	142,238	40,059	316,768	43,009
Canada	4,562	6,746	8,770	124,824
UK	30,088	19,974	51,092	23,258
Brazil	28,341	28,523	38,033	24,943
France	37,576	17,909	52,112	16,877
Norway	42,373	–	111,274	–
Italy	39,131	–	51,439	–
China	110,968	3,985	90,798	3,837
Japan	17,895	23	42,332	3
Mexico	9,983	18,305	7,512	17,782
Russia	16,725	–	34,228	–
Austria	19,104	–	29,556	–
Belgium	9,705	29	16,836	61
Other Countries	171,657	12,029	178,836	11,863
Total	867,447	251,255	1,280,120	372,142

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

5. Acquisitions

Acquisition of Graphit Kropfmühl AG

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

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

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

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

From the date of consolidation (April 30), GK reduced the profit of the Company in 2008 by generating a loss attributable to shareholders of $37,268. This is inclusive of an after-tax write-down of GK's fixed assets and intangible assets attributable to shareholders in the amount of $28,744.

Acquisition of Furnaces Nuclear Applications Grenoble

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

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

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

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

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

From the date of consolidation (October 9), FNAG contributed $454 to the profit of the Company in 2008.

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

Acquisition of Silmag DA

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

6. Discontinued operations

On September 28, 2009, one of Timminco's lenders, Safeguard International Fund (SIF), exercised its option to convert debt into equity. AMG had the right to retain its ownership interest upon SIF's conversion but opted not to exercise this option. This conversion reduced AMG's ownership percentage from 50.8% to 47.9%, thus triggering a deemed disposal. The loss of control is accounted for under IFRS 5 guidelines as a discontinued operation.

The results of Timminco for the discontinued operations related to the nine months in 2009 and the 12 months in 2008 are presented below:

	2009	2008
Revenue	67,868	238,495
Expenses	119,066	242,145
Gross profit	(51,198)	(3,650)
Finance costs	500	1,404
Share of loss of associates	–	11,131
Impairment loss recognized on the remeasurement to fair value	–	–
Loss before tax from a discontinued operation	(51,698)	(16,185)
Tax expense:	(1,549)	(4,977)
Related to current pre-tax loss	(1,549)	(4,977)
Loss for the year from a discontinued operation	(53,247)	(21,162)

Net cash flows incurred by Timminco are as follows:

	2009	2008
Operating	(18,459)	5,778
Investing	(32,039)	(65,485)
Financing	47,578	48,800
Net cash (outflow)/inflow	(2,920)	(10,907)

Earnings per share:	**2009**	2008
Basic, from discontinued operations	(1.05)	(0.40)
Diluted, from discontinued operations	(1.05)	(0.39)

All assets and liabilities of Timminco were de-consolidated as at September 28, 2009 and are now accounted for under the equity method of accounting.

	2009	2008
Assets		
Non-current assets	192,650	135,236
Current assets, excluding cash and cash equivalents	60,820	109,021
Cash and cash equivalents	4,914	3,686
Liabilities		
Non-current liabilities	67,066	30,405
Current liabilities	103,818	136,306
Net assets	87,500	81,232

Following the classification, a loss on deemed disposal resulting from the dilution of the share in Timminco of $1,131 was recognized to reduce the carrying amount of the net assets and was recognized in the income statements in the line item 'loss after tax for the year from discontinued operations.'

7. Revenue

	2009	2008 *Restated
Sales of goods	866,869	1,280,079
Rendering of services (commissions)	578	41
Total revenues	867,447	1,280,120

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

	2009	2008
Contract revenue recognized	200,522	312,454
Contract expenses recognized	142,834	212,057
Recognized profits	57,688	100,397
Contract costs incurred and recognized profits	258,144	375,049
Progress billings and advances received	272,325	436,331
Net amount due to customers	(14,181)	(61,282)
Gross amount due from customers for contract work	40,583	32,767
Gross amount due to customers for contract work (shown as advance payments in consolidated statement of financial position)	(54,764)	(94,049)
Net amount due to customers	(14,181)	(61,282)

8. Other income

	Note	2009	2008
Grant income	i	4,030	4,413
Income from canceled order	ii	–	1,806
Gains from asset sales	iii	84	896
Release of unused provisions	iv	824	690
Rental income	v	238	195
Other miscellaneous income	vi	1,006	588
		6,182	8,588

In 2009, other income of $6,182 consisted of: (i) government grant income of $4,030 associated with our Berlin operation and at Graphit Kropfmühl; (iii) income from asset sales of $84; (iv) release of unused provisions of $824; (v) rental income of $238 at two subsidiaries which rent out unused space and (vi) other miscellaneous income of $1,006.

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

9. Personnel expenses

	Note	2009	2008 *Restated
Wages and salaries		118,117	140,827
Contributions to defined contribution plans	27	2,320	2,387
Expenses related to defined benefit plans	27	8,164	5,513
Recognized actuarial gains in excess of pension corridor	27	–	(9,863)
Social security and other benefits		24,989	28,299
Performance share units	28	3,605	–
Share-based payment compensation	28	13,729	16,909
		170,924	184,072
Included in the following lines of the consolidated income statement:			
Cost of sales		93,884	109,616
Selling, general and administrative costs		77,040	74,456
		170,924	184,072

10. Finance income and expense

Recognized in profit or loss

	2009	2008 *Restated
Interest income on bank deposits	2,670	5,503
Interest income on related party loans	222	299
Interest income on convertible note receivable from associate	32	–
Other	663	612
Finance income	3,587	6,414
Foreign exchange loss	(2,418)	(5,071)
Amortization of loan issuance costs	(1,781)	(1,750)
Amortization of rate cap instrument	(99)	(280)
Finance lease expense	(6)	(15)
Loss on valuation of convertible loan	(187)	–
Interest expense on loans and borrowings	(11,682)	(15,585)
Interest expense on interest rate swap	(1,673)	(222)
Discount for provisions	(72)	(490)
Guarantees	(918)	(1,205)
Finance costs on derivatives	(750)	–
Other	(1,251)	(530)
Finance expense	(18,419)	(20,077)
Net finance costs	(17,250)	(18,734)

11. Income tax

Significant components of income tax expense for the years ended:

Current tax expense	2009	2008 *Restated
Current period	31,266	26,610
Adjustment for prior periods	(2,089)	(87)
Total current taxation charges for the year	29,177	26,523
Deferred tax expense		
Origination and reversal of temporary differences	(23,719)	1,241
Changes in previously unrecognized tax losses, tax credits and unrecognized temporary differences	19,818	7,626
Changes in previously recognized tax losses, tax credits and recognized temporary differences for changes in enacted tax rates	(5,066)	507
Adjustment for prior periods	(5,005)	1,065
Total deferred taxation for the year	(13,972)	10,439
Total income tax expense reported in the income statement	15,205	36,962

The deferred tax related to the net gain on revaluation of cash flow hedges in the amount of $707 (2008: $1,842) is the only tax charged or credited directly to equity during the year.

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 19.72% to the Company's effective income tax rate for the years ended is as follows:

	2009	2008 *Restated
Profit before income tax from continuing operations	(28,647)	60,682
Income tax using the Company's weighted average tax rate	(5,650)	16,909
Foreign dividend repatriations		
Non-deductible expenses	10,336	2,374
Current year losses for which no deferred tax asset was recognized and changes in unrecognized temporary differences	20,084	18,270
Recognition of previously unrecognized tax losses, tax credits and temporary differences of a prior year	(266)	(498)
Changes in previously recognized tax losses, tax credits and recognized temporary differences for changes in enacted tax rates	(5,066)	790
Under (over) provided in prior periods	(7,094)	703
Other	2,861	3,391
Income tax expense reported in consolidated income statement	15,205	41,939
Income tax attributable to discontinued operations	–	4,977
Total income tax expense	15,205	36,962

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

During the year ended 2009, the income tax benefits related to the current year losses of certain U.S., German, Netherlands, U.K. subsidiaries and a Norwegian joint venture were not recognized. During the year ended December 31, 2008 the income tax benefits related to current year losses of the newly acquired German business and the Canadian magnesium business have not been recognized. In total, $20,084 and $18,270 were not recognized in 2009 and 2008, respectively, as it is not probable that these amounts will be realized.

During the year ended December 31, 2009 certain income tax benefits related to previously unrecognized tax losses and temporary differences related to a Brazilian subsidiary were recognized. During the year ended December 31, 2008 certain income tax benefits related to previously unrecognized tax losses and temporary differences related to a German subsidiary were recognized. In total, $266 and $498 were recognized in 2009 and 2008, respectively, through an increase to the net deferred tax asset. The income tax benefits were recognized since it is probable the amounts will be realized.

In 2009, the Canadian magnesium business was a part of Timminco and therefore was moved to discontinued operations. The tax effect of the current year discontinued operation loss is $1,550 which is reflected in discontinued operations.

Also during the years ended December 31, 2009 and 2008, the net recognized deferred tax assets/(liabilities) were adjusted for changes in the enacted tax rates in Canada and Germany. The net recognized deferred tax asset/(liabilities) were also adjusted to reflect accurate tax rates. The impact of the tax rate changes was a decrease to income tax expense of $5,066 for 2009 and an increase to income tax expense of $790 for 2008.

There were no income tax consequences attaching to the payment of dividends in either 2009 or 2008 by AMG Advanced Metallurgical Group N.V. to its shareholders, as no dividend payments were made.

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

Deferred tax assets and liabilities

Deferred 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 carryforwards.

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

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities have been recognized in respect of the following items:

	Consolidated Statement of Financial Position				Consolidated Income Statement	
	Assets		Liabilities			
	2009	2008	**2009**	2008	**2009**	2008
Inventories	39,599	58,057	25	582	(18,890)	23,507
Long-term contracts	–	8,985	68,095	98,407	23,336	(30,970)
Prepaids and other current assets	80	1,826	4	1,838	(191)	61
Property, plant and equipment	1,921	3,842	6,153	13,177	662	8,760
Deferred charges and non-current assets	445	783	2,767	3,681	585	2,240
Accruals and reserves	9,171	5,274	1,213	4,224	7,832	(2,617)
Environmental liabilities	65	226	1,233	1,248	(111)	20
Retirement benefits	5,854	7,680	–	66	(937)	(3,907)
Tax loss and tax credit carryforwards	6,956	9,718	84	–	1,686	(7,533)
Tax assets and liabilities	64,091	96,391	79,574	123,223		
Set off of tax	(53,179)	(67,210)	(53,179)	(67,210)		
Net tax assets and liabilities	10,912	29,181	26,395	56,013		
Deferred tax provision (benefit)					13,972	(10,439)

Unrecognized deferred tax assets and liabilities

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

At December 31, 2009 there were gross unrecognized tax loss carryforwards of $112,102 from US operations which expire through 2029, and $112,105 from German operations, which do not expire. At December 31, 2008 there were gross unrecognized tax loss carryforwards of $140,210 from US operations and $41,964 from Canadian operations, both of which expire through 2028, and $68,003 from German operations, which do not expire.

Deferred tax assets and liabilities have not been recognized in respect of the following items:

	Assets		Liabilities	
	2009	2008	**2009**	2008
Inventories	477	880	47	150
Prepaids and other current assets	708	–	9	52
Property, plant and equipment	75	8,401	2,568	3,041
Accruals and provisions	3,806	3,397	809	–
Deferred charges and non-current assets	906	6,025	65	–
Environmental liabilities	3,723	2,640	–	–
Retirement benefits	10,805	9,540	–	463
Tax loss and tax credit carryforwards	91,633	96,971	–	–
Tax assets and liabilities	112,133	127,854	3,498	3,706
Set off of tax	(2,202)	(1,724)	(2,202)	(1,724)
Net tax	109,931	126,130	1,296	1,982

12. Exceptional items

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

In the year ended December 31, 2009, operating income was adjusted for a significant number of exceptional items which arose during the year.

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

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

	2009	2008 *Restated
Operating profit	20,561	78,869
Asset impairment of loans, fixed assets and intangibles	1,718	47,119
Recognition of actuarial gains due to service termination in pension plan	–	(9,863)
Amortization of purchase accounting adjustments to inventory	–	8,178
Environmental	3,998	1,433
Restructuring	7,782	2,879
Adjusted operating profit	34,059	128,615

13. Property, plant and equipment

Cost	Mine Expansion	Land and Buildings	Machinery and Equipment	Furniture and Fixtures	Construction in progress	Finance Leases	Total
Balance at January 1, 2008	–	78,340	339,361	23,200	15,091	1,092	457,084
Additions	4,407	31,879	89,399	4,960	26,898	–	157,543
Acquisitions through business combinations	5,486	26,196	45,078	1,716	3,276	–	81,752
Retirements and transfers	785	23,324	(42,749)	(3,896)	(15,104)	–	(37,640)
Effect of movements in exchange rates	(417)	(10,859)	(33,863)	(1,104)	(603)	(127)	(46,973)
Balance at December 31, 2008	10,261	148,880	397,226	24,876	29,558	965	611,766
Balance at January 1, 2009	10,261	148,880	397,226	24,876	29,558	965	611,766
Discontinued operations in opening	–	(46,804)	(139,615)	–	(210)	(426)	(187,055)
Additions	400	1,747	9,925	1,244	11,066	–	24,382
Retirements and transfers	4,042	1,494	20,355	(3,301)	(27,517)	–	(4,927)
Effect of movements in exchange rates	185	2,134	3,771	566	50	16	6,722
Balance at December 31, 2009	14,888	107,451	291,662	23,385	12,947	555	450,888
Depreciation and impairment							
Balance at January 1, 2008	–	(36,693)	(246,306)	(18,027)	–	(295)	(301,321)
Depreciation for the year	(275)	(3,545)	(20,773)	(2,157)	–	(75)	(26,825)
Retirements and transfers	(41)	(15,008)	43,788	4,364	–	(25)	33,078
Impairments	–	(1,094)	(24,202)	–	–	–	(25,296)
Effect of movements in exchange rates	178	3,266	17,902	657	–	65	22,068
Balance at December 31, 2008	(138)	(53,074)	(229,591)	(15,163)	–	(330)	(298,296)
Balance at January 1, 2009	(138)	(53,074)	(229,591)	(15,163)	–	(330)	(298,296)
Discontinued operations in opening	–	15,780	64,132	–	–	269	80,181
Depreciation for the year	(690)	(3,566)	(15,357)	(1,939)	–	(36)	(21,588)
Retirements and transfers	(3,052)	89	4,848	2,863	–	–	4,748
Impairments	–	(439)	(1,279)	–	–	–	(1,718)
Effect of movements in exchange rates	(79)	(776)	(2,002)	(333)	–	(3)	(3,193)
Balance at December 31, 2009	(3,959)	(41,986)	(179,249)	(14,572)	–	(100)	(239,866)
Carrying amounts							
At January 1, 2008	–	41,647	93,055	5,173	15,091	797	155,763
At December 31, 2008	10,123	95,806	167,635	9,713	29,558	635	313,470
At January 1, 2009	10,123	95,806	167,635	9,713	29,558	635	313,470
At December 31, 2009	10,929	65,465	112,413	8,813	12,947	455	211,022

Mine expansion

The Company expanded its tantalum mine during 2008. The mine expansion included stripping costs of $4,698. Amortization of stripping costs did not begin in 2008 as the asset was only put into production in December 2008. Amortization of these costs began in 2009 using the units of production methodology. During the year ended December 31, 2009, $297 of these costs have been amortized. Additional mining assets exist from the acquisition of GK. Amortization of the acquired assets was $393 during the year ended December 31, 2009 (2008: $275).

Property, plant and equipment under construction

During the year ended December 31, 2009, the subsidiaries of the Company embarked on several different expansion projects as well as certain required maintenance projects. Costs incurred up to December 31, 2009, which are included in construction in progress totaled $12,947 (2008: $29,558).

Borrowing costs

The Company had no capitalized borrowing costs incurred during the year ended December 31, 2009.

Finance leases

At December 31, 2009, the Company had $455 (2008: $635) of finance leases for equipment and software.

Depreciation of property, plant and equipment

Depreciation expense for the year ended December 31, 2009 was $21,588 (2008 restated: $20,791). Depreciation expense is recorded in the following line items in the consolidated income statement:

	2009	2008 *Restated
Cost of sales	20,064	18,407
Selling, general and administrative expenses	1,524	2,384
Total	21,588	20,791

Sale of equipment

Certain equipment was sold in the years ended December 31, 2009 and 2008 (restated). In those years, the Company received proceeds of $129 and $858, respectively. In the year ended December 31, 2009, the proceeds were less than the book value of the assets and losses on disposal of equipment were $6,253. In the year ended December 31, 2008, the restated proceeds were greater than the book value of the assets and gains on disposal of equipment were $547.

Impairment testing

Impairment losses were recorded at certain locations in 2009 and 2008 due to the discontinued use of certain assets.

In 2009, asset impairment charges in the amount of $1,718 were recorded due to impairments of equipment and a building at a subsidiary in the United States.

The Company performs goodwill impairment tests annually in accordance with IFRS guidelines. As a result of the goodwill impairment test on the Company's subsidiary, GK, the Company had to record an impairment charge against GK's machinery and equipment for $23,565 in 2008. See note 14 for more details.

In 2008, restated asset impairment charges of $585 were recorded due to an impairment on a building at a subsidiary in South Carolina.

On June 6, 2008, Timminco announced the closure of one of its manufacturing facilities in Haley, Ontario. Accordingly, certain assets were written down and an impairment loss of $988 was incurred during 2008. Additionally during 2008, Timminco recognized an impairment of $158 on a building at a subsidiary in Memphis. The impairment losses were included within discontinued operations (note 6).

The asset impairment charges, totaling $1,718 in 2009 are included in the asset impairment expense line of the consolidated income statement. For 2008, $47,119 of the restated asset impairment charges were included in the asset impairment expense line.

Security

At December 31, 2009 properties with a carrying amount of $116,357 (2008: $305,910) are pledged as collateral to secure certain bank loans of subsidiaries.

14. Intangible assets

Cost	Goodwill	Customer relationships	Supply contracts	Other intangible assets	Total
Balance at January 1, 2008	39,980	–	–	20,344	60,324
Additions	–	–	–	748	748
Acquisition through business combination	13,644	10,079	4,463	3,584	31,770
Disposals, reversals and transfers	(931)	–	–	–	(931)
Effect of movements in exchange rates	(5,420)	(585)	(318)	(2,104)	(8,427)
Balance at December 31, 2008	47,273	9,494	4,145	22,572	83,484
Balance at January 1, 2009	47,273	9,494	4,145	22,572	83,484
Discontinued operations in opening	(14,431)	–	–	(4,752)	(19,183)
Acquisitions	18	–	–	–	18
Additions	–	–	–	1,150	1,150
Disposals, reversals and transfers	–	–	–	–	–
Effect of movements in exchange rates	930	283	123	558	1,894
Balance at December 31, 2009	33,790	9,777	4,268	19,528	67,363
Amortization and impairment					
Balance at January 1, 2008	–	–	–	(10,033)	(10,033)
Amortization	–	(939)	(1,408)	(2,148)	(4,495)
Disposals and reversals	–	–	–	167	167
Impairment	(10,165)	(8,607)	(2,815)	(1,382)	(22,969)
Effect of movements in exchange rates	–	52	78	776	906
Balance at December 31, 2008	(10,165)	(9,494)	(4,145)	(12,620)	(36,424)
Balance at January 1, 2009	(10,165)	(9,494)	(4,145)	(12,620)	(36,424)
Discontinued operations in opening	–	–	–	681	681
Amortization	–	–	–	(2,170)	(2,170)
Disposals and reversals	–	–	–	(8)	(8)
Impairment	–	–	–	–	–
Effect of movements in exchange rates	(300)	(283)	(123)	(483)	(1,189)
Balance at December 31, 2009	(10,465)	(9,777)	(4,268)	(14,600)	(39,110)
Carrying amounts					
At January 1, 2008	39,980	–	–	10,311	50,291
At December 31, 2008	37,108	–	–	9,952	47,060
At January 1, 2009	37,108	–	–	9,952	47,060
At December 31, 2009	23,325	–	–	4,928	28,253

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

The other intangibles amount represents certain licenses, including software licenses. During 2009, there was an acquisition of a small trading company for $25 of which $18 was goodwill.

Research and development costs

Research and development costs are expensed as incurred and included in selling, general and administrative expenses. Research and development as of December 31, 2009 was $9,967 (2008 restated: $7,525).

Amortization of intangible assets

Amortization expense for year ended December 31, 2009 was $2,170 (2008 restated: $4,086). Amortization expense is recorded in the following line items in the consolidated income statement:

	2009	2008
Costs of sales	964	2,056
Selling, general and administrative expenses	1,206	2,030
Total	2,170	4,086

Impairment testing for cash-generating units containing goodwill

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

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

	2009	2008
Sudamin cash-generating unit (France)	11,339	11,011
LSM cash-generating unit (UK)	1,510	1,510
ALD cash-generating unit (including FNAG)	10,458	10,155
GK cash-generating unit	18	–
Timminco cash-generating unit	–	14,432
Goodwill at cash-generating units	23,325	37,108

Key assumptions

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

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

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

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

Growth rate assumptions—Rates are based on management's interpretation of published industry research. As most businesses follow economic trends, an inflationary factor was utilized.

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 and ALD's cash-generating units, the recoverable amounts are the higher of the fair value less costs to sell and the value in use. The value in use was determined using the discounted cash flow method. In 2009 and 2008, the carrying amounts of the Advanced Materials and ALD units were determined to be lower than their recoverable amounts and impairment losses were not recognized.

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

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 2% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry in France.
- Revenue projections are based on an internal 3-year business plan.
- Discount rates of 9.18 percent and 11.30 percent were applied in determining the recoverable amount of the unit for the years ended December 31, 2009 and 2008, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.
- Sudamin's value in use exceeds its carrying value at December 31, 2009 by $5,161.

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

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 2% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry in the UK.
- Revenue projections are based on an internal 3-year business plan.
- Discount rates of 9.60 percent and 10.69 percent were applied in determining the recoverable amount of the unit for the years ended December 31, 2009 and 2008, respectively. The discount rates were derived from a group of comparable companies (peer group)

and have been compared to external advisor reports for reasonableness.
- LSM's value in use exceeds its carrying value at December 31, 2009 by $3,122.

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

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 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 and alternative energy industry.
- Revenue projections are based on an internal 3-year business plan.
- Discount rates of 8.98 percent and 11.30 percent were applied in determining the recoverable amount of the unit for the years ended December 31, 2009 and 2008, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.
- ALD's value in use exceeds its carrying value at December 31, 2009 by $229,178.

(4) Upon acquisition in 2008, GK had goodwill of $46,046. Due to the impairment test performed at December 31, 2008, the carrying amounts of GK were determined to be lower than the recoverable amounts and an impairment of $46,046 was recorded. This impairment was primarily allocated to the assets that were recognized in the purchase price allocation. Impairments in intangible assets in the amount of $22,481 were recorded. The impairments also impacted fixed assets by $23,565.

GK purchased a small subsidiary in the year ended December 31, 2009 and recognized goodwill of $18 upon acquisition. AMG reassessed the value in use of GK as at December 31, 2009. The value in use of GK approximated the carrying value and therefore, no adjustment in goodwill value was made in 2009.

Impairment of equity investment in Timminco Ltd. ("Timminco")

Impairment tests for the Company's 42.5% equity investment in Timminco were based on its fair value less costs to sell. The carrying amount of this individual asset as of December 31, 2009 was $19,460. The carrying amounts were determined to be lower than the investment's recoverable amounts and no impairment was necessary in 2009. Timminco's fair value was determined by using quoted market prices for the shares of Timminco, as the shares are traded on the Toronto Stock Exchange.

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 amount of this individual asset as of December 31, 2009 and 2008 was $2,155 and $2,162, respectively. The carrying amounts were determined to be lower than the investment's recoverable amounts and no impairment was necessary in 2009 or 2008.

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 next three 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 Spain.
- Revenue projections are based on an internal 3-year business plan.
- Discount rates of 9.60 percent and 7.32 percent were applied in determining the recoverable amount of the asset for the years ended December 31, 2009 and 2008, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.
- Bostlan's value in use exceeds its carrying value at December 31, 2009 by $2,595.

15. Associates

The Company's share of loss in its associates for 2009 was $31,958 (2008 restated share of income: $547).

During the year ended December 31, 2009, the owners of Heidenreich and Harbeck AG (H&H) exercised their call option to convert the Company's shares of H&H into shares of ABS Apparaté und Behälterbrau Staßfurt GmbH. Prior to the conversion, the Company owned 19% of H&H and accounted for it at cost. The share for share exchange increased the Company's share ownership in ABS from 24.9% to 49%. No additional consideration was included in this exchange. This transaction had no material impact on the net investment position of the Company.

On September 28, 2009, the Company reduced its ownership percentage of Timminco from 50.8% to 47.9%. This loss of control resulted in a deemed disposal. Timminco is therefore no longer consolidated and is recorded as an associate in the consolidated statement of financial position. Effective from the date of the deemed disposal, all losses of Timminco are recorded in the share of loss of associates line in the income statement. Since September 28, 2009, Timminco has issued additional shares and the Company's ownership has further declined to 42.5%. Timminco has disclosed various risks to its ability to continue as a going concern in its 2009 financial statements. Those risks include its ability to remain in compliance with its debt covenants. It is noted that the continued support of lenders is required or Timminco may not be able to realize its assets or discharge its liabilities.

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

As at December 31, 2007, Timminco had a 47.1% share in Fundo Wheels, located in Hoyanger, Norway. On March 14, 2008, Timminco converted into shares the full principal amount of two loans provided during 2007 to fund working capital. After the conversion of this debt, the Company's ownership percentage of Fundo decreased from 47.1% to 45.3%. In September 2008, it became evident that there may not be sufficient capital within Fundo to secure its long-term viability. Accordingly, the investment in Fundo and all related notes receivable from Fundo were written down to nil, which was management's best estimate of their fair value. This charge of $8,227 was included in discontinued operations.

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

2009	Country	Ownership	Total assets	Total liabilities	Net equity	Revenues	Expense	Recognized profit or loss	Carrying amount
Bostlan	Spain	25.0%	5,662	3,224	2,438	6,988	6,995	(7)	2,155
ALD Holcroft Vacuum Technologica Co.	United States	50.0%	1,373	1,131	242	2,557	2,617	(60)	238
ABS Apparaté und Behälterbrau Staßfurt GmbH	Germany	49.0%	3,638	401	3,237	3,196	3,006	190	6,913
Silmag DA	Norway	50.0%	8,317	1,337	6,980	–	4,583	(4,583)	6,028
Timminco Ltd.	Canada	42.5%	85,108	61,311	23,797	10,242	37,740	(27,498)	19,460
TOTAL								(31,958)	34,794
2008									
Bostlan	Spain	25.0%	7,530	5,102	2,428	12,729	12,185	544	2,162
ALD Holcroft Vacuum Technologica Co.	United States	50.0%	1,365	1,063	302	2,455	2,979	(524)	290
Fundo Wheels A.S.	Norway	45.3%	23,813	18,426	5,387	25,776	36,907	(11,131)*	–
ABS Apparaté und Behälterbrau Staßfurt GmbH	Germany	24.9%	1,680	200	1,480	6,475	5,948	527	2,816
Silmag DA	Norway	50.0%	12,946	3,010	9,936	–	–	–	10,432
TOTAL								(10,584)	15,700

*Due to the change in ownership of Timminco, this amount is shown in discontinued operations in the consolidated income statement for the year ended December 31, 2008.

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

	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
2009						
ALD Holcroft Vacuum Technologica Co.	1,334	39	1,373	1,131	–	1,131
Silmag DA	2,142	6,175	8,317	1,337	–	1,337
2008						
ALD Holcroft Vacuum Technologica Co.	1,350	15	1,365	1,063	–	1,063
Silmag DA	9,936	3,010	12,946	3,010	–	3,010

16. Inventories

	2009	2008
Raw materials	79,471	117,543
Work in process	38,231	86,374
Finished goods	73,151	108,862
Other	2,525	6,014
Total inventories at the lower of cost and net realizable value	193,378	318,793

Other inventory primarily includes spare parts that are maintained for operations.

In 2009 raw materials, changes in finished goods and work in process contributed to cost of sales by $498,312 (2008: $806,200). In 2009 the net adjustment to net realizable value amounted to a writedown of $14,244 (2008: writedown of $20,452) and was included in cost of sales.

Inventory in the amount of $134,531 (2008: $261,355) is pledged as collateral to secure the bank loans of certain subsidiaries (see note 24).

17. Trade and other receivables

	2009	2008
Trade receivables, net of allowance for doubtful accounts	101,482	135,275
Notes receivable	5,721	5,380
Gross amount due from customers for contract work (POC)	224,162	320,061
Less: progress payments received	(183,578)	(287,294)
Net POC receivables	40,584	32,767
Total	147,787	173,422

At December 31, 2008, trade receivables include: receivables from customers who have received direct shipments or services from the Company and receivables from customers who have utilized inventory on consignment. Amounts billed to percentage of completion customers are also included in the trade and other receivables line item in the statement of financial position. The carrying amount of trade receivables approximates their fair value. Trade receivables are non-interest bearing and are generally on 30-90 day terms.

For terms and conditions relating to related party receivables, refer to note 39.

At December 31, 2009, receivables in the amount of $138,760 (2008: $154,584) 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 24).

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

			Past due but not impaired				
	Total	Neither past due nor Impaired	< 30 days	30–60 days	60–90 days	90–120 days	> 120 days
2009	147,787	119,287	20,237	1,917	735	3,023	2,588
2008	173,422	132,016	25,207	9,052	2,016	1,502	3,629

At December 31, 2009, trade receivables are shown net of an allowance for impairment of $4,864 (2008: $2,539) arising from customer unwillingness or inability to pay. During the year ended December 31, 2009 and 2008, impairment losses in the amount of $2,498 and $554, respectively, have been recorded.

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

	2009	2008
At January 1	2,539	1,851
Discontinued operations in opening	(39)	–
Charge for the year	2,498	554
Amounts written off	(154)	(14)
Unused amounts reversed	(89)	(221)
Adjustment for acquisition	–	500
Foreign currency adjustments	109	(131)
At December 31	4,864	2,539

18. Other assets

Other assets are comprised primarily of the following:

	2009	2008
Prepaid income tax	5,378	18,276
Other tax assets	10,506	8,363
Prepaid inventory	5,041	10,783
Investments in equity securities	970	4,679
Pension prepayments	4,553	3,189
Supplier prepayments	1,860	2,760
Insurance	1,531	2,038
Various deposits	2,614	2,443
Commission prepayments	–	1,839
Other miscellaneous assets	9,886	10,046
	42,339	64,416
Thereof:		
Current	30,359	52,804
Long-Term	11,980	11,612

The Company made strategic investments in certain growth-based companies in Germany and Iceland. These equity investments cannot be reliably measured at fair value and are therefore accounted for using a cost basis. As of December 31, 2009 and 2008, these investments amounted to $970 and $4,679 respectively. During the year ended December 31, 2009, the owners of one of the equity investments, Heidenreich and Harbeck AG (H&H) exercised their call option to convert the Company's shares of H&H into shares of ABS Apparaté und Behälterbrau Staßfurt GmbH. See note 15 for more details.

19. Short term investments

Short term investments were nil at December 31, 2009 (2008: $95).

20. Restricted cash

Restricted cash at December 31, 2009 is $13,263 and is comprised of $3,546 security deposits to secure leasing activities and approximately $9,554 which provide security to financial institutions who issue letters of credit on behalf of the Company. These letters of credit serve two primary purposes: to provide financial backing for advance payments made by our customers of the Engineering Systems Division and to provide financial assurance to vendors and regulatory agencies to whom the Company is obligated. Additionally, there is restricted cash related to import and export allowances in the amount of $163.

Restricted cash at December 31, 2008 is $15,889 and is comprised of a $3,137 security deposit to secure leasing activities and approximately $10,803 which provide security to financial institutions who issue letters of credit on behalf of the Company. Additionally, there is restricted cash related to an acquisition guarantee in the amount of $348 and an amount of $1,601 is restricted for import and export allowances.

21. Cash and cash equivalents

	2009	2008
Bank balances	84,876	125,401
Call deposits	32,140	18,072
	117,016	143,473

Bank balances earn interest at floating rates based on daily bank deposit rates. Call deposits have maturities of approximately three months or less depending on the immediate cash needs of the Company, and earn interest at the respective short term rates.

At December 31, 2009, the Company had $79,906 of available liquidity (2008: $103,108) on undrawn committed borrowing facilities.

The above chart is also representative of the consolidated cash flow statement, cash and cash equivalents with no bank overdrafts as of December 31, 2009 (2008: nil).

22. Capital and reserves

Share Capital

At December 31, 2009, the Company's authorized share capital was comprised of 100,000,000 ordinary shares (2008: 100,000,000) with a nominal share value of €0.02 (2008: €0.02). At December 31, 2009, the issued and outstanding share capital was comprised of 26,899,548 ordinary shares (2008: 26,855,586), with a nominal value of €0.02 (2008: €0.02) which were fully paid.

A rollforward of the total shares outstanding is noted below:

Balance at January 1, 2008	26,803,086
Exercise of share-based payments	52,500
Balance at December 31, 2008	26,855,586
Balance at January 1, 2009	26,855,586
Shares issued to Supervisory Board directors	43,962
Balance at December 31, 2009	26,899,548

Supervisory Board Remuneration

During the year ended December 31, 2009, 43,962 shares were issued as compensation to its Supervisory Board members as compensation for services provided in 2008 and 2009. These shares were awarded as part of the remuneration policy approved by the Annual General Meeting.

Share-based payments

During the year ended December 31, 2008, 52,500 share-based payments were exercised resulting in 52,500 shares being issued. No additional shares were issued during the year ended December 31, 2008.

Other Reserves

	Net unrealized gains (losses) reserve	Foreign currency translation reserve	Share-based payment reserve	Treasury reserve	Total
Balance at January 1, 2008	270	1,673	3,957	(15,823)	(9,923)
Currency translation differences	–	(11,788)	(249)	–	(12,037)
Net movement on cash flow hedges	(14,800)	–	–	–	(14,800)
Tax effect on net movement on cash flow hedges	1,842	–	–	–	1,842
Reversal of treasury reserve	–	–	–	15,823	15,823
Exercise of equity-settled share-based payments	–	–	(1,151)	–	(1,151)
Share-based payment activity at subsidiary	–	–	1,311	–	1,311
Equity-settled share-based payments	–	–	16,720	–	16,720
Balance at December 31, 2008	(12,688)	(10,115)	20,588	–	(2,215)
Balance at January 1, 2009	(12,688)	(10,115)	20,588	–	(2,215)
Currency translation differences	–	4,456	–	–	4,456
Net movement on cash flow hedges	14,162	–	–	–	14,162
Tax effect on net movement on cash flow hedges	(707)	–	–	–	(707)
Share-based payment activity at subsidiary	–	–	1,559	–	1,559
Equity-settled share-based payments	–	–	14,029	–	14,029
Balance at December 31, 2009	767	(5,659)	36,176	–	31,284

Net unrealized gains (losses) reserve

The net unrealized gains (losses) reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. For further discussion of the cash flow hedges and the amounts that were realized in the income statement, see note 35.

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries. As of January 1, 2005, there are three primary functional currencies used within the Company: the US Dollar, the Canadian Dollar and the Euro. There are four additional functional currencies used at small companies within the organization with limited impact to the consolidated financial statements: the Japanese Yen, the British Pound Sterling, the Singapore Dollar and the Polish Zloty. Resulting translation adjustments were reported in a separate component of equity.

Share-based payment reserve

The share-based payment reserve is comprised of the value of equity-settled share-based payments provided to employees (and outside consultants), including key management personnel, as part of their remuneration. Refer to note 28 for details regarding these plans.

Dividends

No dividends have been paid or proposed in the years ended December 31, 2009 and 2008.

23. Earnings per share

Basic earnings per share

Basic earnings per share amounts are calculated by dividing net profits for the year attributable to ordinary equity holders of the parent by the weighted average of ordinary shares outstanding during the year.
As of December 31, 2009 and 2008, the calculation of basic earnings per share is performed using the weighted average shares outstanding for 2009 and 2008, respectively.

Diluted earnings per share

Diluted earnings per share are calculated by dividing the net (loss) income attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The only category of potentially dilutive shares at December 31, 2009 and 2008 are AMG's share options. The diluted earnings per share calculation includes the number of shares that could have been acquired at fair value given the exercise price 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.

Earnings	2009	2008
Net (loss) profit attributable to equity holders for basic and diluted earnings per share	(75,642)	14,453
Number of shares (in 000's)		
Weighted average number of ordinary shares for basic earnings per share	26,861	26,822
Dilutive effect of share-based payments	–	704
Weighted average number of ordinary shares adjusted for effect of dilution	26,861	27,526

24. 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 note 34.

Non-current	Effective interest rate	Maturity	2009	2008
€71,003 Term Loan	EURIBOR + 1.50%	2012	95,835	91,289
$175,000 Term Loan Revolver	EURIBOR + 1.25%	2012	39,000	17,000
€13,225 GK SPK Passau	3.75%–5.85%	Various	8,551	6,618
€4,000 GK Unicredit	5.08%–6.58%	Various	4,473	3,132
€1,400 GK Landesbank	4.65%	2017	1,630	1,826
€2,200 GFE bank loan	4.95%	2023	2,374	2,427
€3,466 GfE subsidiary debt	4.05–6.30%	Various	2,346	2,876
CAD250 Timminco line of credit	7.00%	2010	–	80
€9,825 ALD subordinated loan	8.04%	2012	14,082	13,595
Capital lease obligations	Various	Various	28	147
Total Non-current			168,319	138,990

Current	Effective interest rate	Maturity	2009	2008
€13,225 GK SPK Passau	3.75–5.85%	Various	1,377	949
€4,000 GK Unicredit	5.08%–6.58%	Various	1,141	835
€1,400 GK Landesbank	4.65%	2017	251	122
€1,400 GK RLB	3.95%	2009	–	67
€2,200 GFE bank loan	4.95%	2023	126	118
€3,466 GfE subsidiary debt	4.05–6.30%	Various	500	538
€127 ALD subsidiary debt	EURIBOR + 2.00%	2009	–	177
Capital lease obligations	Various	Various	69	215
Total Current			3,464	3,021

Term loan and revolving credit facility

On August 30, 2007, the Company entered into a $275,000 term loan and revolving credit facility. This facility provides the Company with a $100,000 term loan and up to $175,000 in revolver borrowings, which are subject to certain affirmative and negative covenants. Borrowings under the revolving credit facility may be used for general corporate purposes of the Company. As of December 31, 2009, $39,000 was outstanding under the revolving credit facility (2008: $17,000). At December 31, 2009, there was unused availability of $79,906 (December 31, 2008: $103,108).

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 (2008: 1.25) percent margin. To mitigate risk, the Company entered into an interest rate swap to fix the interest rate on the term loan at 4.457%.

The Credit Facility is subject to several affirmative and negative covenants including, but not limited to, the following:

- EBITDA to Net Finance Charges: Not to be less than 3.00:1
- Net Debt to EBITDA: Not to exceed 3.75:1
- Senior Net Debt to EBITDA: Not to exceed 2.00:1

EBITDA, Net Finance Charges, Net Debt and Senior Net Debt are defined in the Credit Facility agreement.

Mandatory prepayment of the Credit Facility is required upon the occurrence of (i) a change of control or (ii) the sale of all or substantially all of the business and/or assets of the Company whether in a single transaction or a series of related transactions.

Debt issuance costs

In connection with the term loan which commenced in 2007, the Company incurred issuance costs of $9,405 which were deducted from the proceeds of the debt from the term loan. 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%.

The Company also has a Subordinated Loan Agreement with HSBC Trinkhaus & Burkhardt KGaA. The principal amount of the subordinated loan is $14,082 (2008: $13,595).The subordinated loan bears interest at 7.27%. A disagio of 4.0% was applied on the subordinated loan; therefore the effective rate of interest is 8.038%. The term of the subordinated loan is unlimited. The Agreement can be terminated no earlier than August 10, 2012.

A German subsidiary maintains a loan agreement with Sparkasse Nuremberg which was originated on December 1, 2003 and requires annual payments of approximately $126. This loan is secured by land and buildings.

Timminco credit facilities

Timminco has been deconsolidated as of September 28, 2009. See note 6.

Timminco had a line of credit valued at $204 with Elkon Products, of which $80 was outstanding on December 31, 2008.

GK debt

A subsidiary of GK maintains a government subsidized loan agreement with Bayrische Landesbank and various other loan agreements with HypoVereinsbank, Unicredit and Sparkasse Passau. The loans carry various interest rates and were recognized by the Company upon the acquisition of GK. Those with floating interest rates have been fixed through interest rate swaps. See note 35. These loans are secured by GK's property, plant and equipment.

Capital leases

As of December 31, 2009, AMG subsidiaries had two capital leases outstanding to finance machinery. Monthly payments under these two leases are $17. These leases mature in 2010 and 2011.

On May 1, 2005, ALD entered into a 60 month capital lease for a software program. Annual payments under this lease are approximately $1. The lease expired during 2009. There are no outstanding balances as of December 31, 2009.

Debt repayments

The Company made various capital lease and debt re-payments of $15,785 during 2009. Of this amount, AMG repaid $12,000 on its Term Loan revolver, which it had previously borrowed in 2009, and GK made $2,639 payments to various banks offset by additional borrowings in the amount of $6,013. The remaining $1,146 relates to various capital lease and other debt re-payments.

The Company made various capital lease and debt re-payments of $7,850 during 2008. Of this amount, $6,544 related to payments made by GK on its Hypo Verinsbank and Sparkasse Bank borrowings of $5,516 and $1,028 respectively. The remaining $1,306 relates to various capital lease and other debt re-payments.

25. Related party debt

Timminco had several related party notes outstanding from Safeguard or Safeguard affiliates at December 31, 2008. Certain notes had variable rates of US prime + 1% while others carried an interest rate of 11%. All notes were convertible into shares of Timminco at varying prices ranging from CAD $0.40—CAD $0.42 per share. The balance of all notes as of December 31, 2008 was $6,456. On September 28, 2009, Timminco issued approximately 7.2 million common shares, at a conversion rate of CAD 0.40 per common share, as full and final settlement of the principal amount outstanding under one note. This issuance of shares changed the Company's ownership of Timminco from 50.8% to 47.9% and this change in ownership is treated as a deemed disposal.

26. Short term bank debt

Timminco

On April 15, 2005, Timminco entered into a Credit Agreement (the "Agreement") with Bank of America, NA. The revolving loan carried interest at the prime rate plus a bank margin of 1.50% and did not require minimum repayments. The Agreement expires in July 2010 and is secured by the assets of Timminco. Amounts outstanding as of December 31, 2008 were $42,026.

Other

The Company's Brazilian subsidiary maintains short term secured and unsecured borrowing arrangements with various banks. Borrowings under these arrangements are included in short term debt on the consolidated statement of financial position and aggregated $20,981 at December 31, 2009 (2008: $26,312) at a weighted-average interest rate of 6.48%.

GK, a subsidiary acquired during 2008, maintains short term secured and unsecured credit facilities with various banks to fund short term operating activities and capital projects. This short term debt carries both floating and fixed interest rates. The balance of these facilities at December 31, 2009 was $11,032 (2008: $14,646) at a weighted-average interest rate of 4.08%. Another German subsidiary entered into a line of credit with Dresdner bank in 2007 maturing during 2009 at an interest rate of 9.18%. The balance of this loan as of December 31, 2008 was $582.

Debt Repayments

The Company's Brazilian and German subsidiaries repaid $5,338 and $4,500 respectively, of short term debt during 2009.

27. Employee benefits

Defined contribution plans

Certain of the Company's subsidiaries 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 or fees payable by the Company are reduced by the forfeited contributions.

In Europe, the employees are members of state-managed retirement benefit plans operated by the government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the subsidiaries with respect to the retirement benefit plan is to make the specified contributions.

The total expense as of December 31, 2009 recognized in the consolidated income statement of $2,320 (2008 restated: $2,387) represents contributions paid and payable to these plans.

Defined benefit plans

US plans (Metallurg)

Certain of the Company's U.S. subsidiaries have tax-qualified, noncontributory defined benefit pension plans covering substantially all salaried and certain hourly paid employees. The plans generally provide benefit payments using a formula based on an employee's compensation and length of service. These plans are funded in amounts equal to the minimum funding requirements of the US Employee Retirement Income Security Act. Substantially all plan assets are invested in cash and short term investments or listed stocks and bonds.

On June 1, 2005, Metallurg entered into a Supplemental Executive Retirement Plan (the "SERP") with Eric E. Jackson, its President and Chief Operating Officer. Pursuant to the terms of the SERP, Mr. Jackson will earn additional retirement benefits for continued service with the Company. The maximum retirement benefit payment under the SERP is $252 per annum reduced by Mr. Jackson's retirement benefit as determined in accordance with Metallurg's US plan and payable from age 65 until age 88. The maximum retirement benefit payment will also be reduced in the case of the commencement of benefit payments prior to age 65 as a result of Mr. Jackson's early termination and/or early retirement. Under the terms of the SERP, Metallurg has no obligation to set aside, earmark or entrust any fund or money with which to pay the obligations thereto.

On April 1, 2007, Metallurg entered into an additional Supplemental Executive Retirement Plan (the "Executive SERP") with Heinz Schimmelbusch and Arthur Spector, its Chief Executive Officer and Deputy Chairman, respectively. Pursuant to the terms of the agreements, these officers earn additional retirement benefits for continued service with the Company. The maximum retirement benefit under these Executive SERP agreements is 50% of their final average compensation with a maximum per annum of $600 and $500 for Dr. Schimmelbusch and Mr. Spector, respectively. One-third of the benefit was recorded as of April 7, 2007 and the remaining two-thirds were accrued ratably on the first day of each of the following twenty-four months. Pension expense related to the Executive SERP in 2009 totaled $1,118 (2008: $2,620). Under the terms of the Executive SERP, Metallurg has no obligation to set aside, earmark or entrust any fund or money with which to pay the obligations thereto. However, the amounts are guaranteed by AMG. Mr. Spector retired effective September 30, 2009 and will initiate payments from his Executive SERP beginning November 1, 2010.

Actuarial assumptions

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

	2009	2008
	% per annum	% per annum
Expected return on plan assets at January 1	8.25	8.25
Inflation	N/A	N/A
Salary increases	N/A	N/A
Rate of discount at December 31	6.13	6.25
Taxable wage base increases	N/A	3.00
IRC Section 401(a)(17) and 415 limits increases	N/A	3.00

The actual return on plan assets for the year ending December 31, 2009 was 22.46% and the actual return on the plan assets over the year ending December 31, 2008 was (24.90%). The investment strategy of the subsidiaries is to achieve long-term capital appreciation, while reducing risk through diversification in order to meet the obligations of the plans. The expected return on plan assets assumption, reviewed annually, reflects the average rate of earnings expected on the funds invested using weighted average historical returns of approximately 10.65% for equities, 5.48% for debt, 4.19% for other and 3.03% for cash. 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. The expectation used for 2009 was 8.25% for the US plans.

Assumptions regarding future mortality are based on published statistics and the 1994 Group Annuity Mortality table. The valuation was prepared on a going-plan basis. The valuation was based on members in the Plan as of the valuation date and did not take future members into account. No provision has been made for contingent liabilities with respect to non-vested terminated members who may be reemployed. No provisions for future expenses were made.

Medical cost trend rates are not applicable to these plans.

The best estimate of contributions to be paid to the plans for the year ending December 31, 2010 is $1,083.

Canada and US plans (Timminco)

As at September 28, 2009, the Company's ownership of Timminco went from 50.8% to 47.9%, resulting in a deemed disposal. The Company now accounts for Timminco using the equity method of accounting. Timminco's employee benefit liability is included in AMG's consolidated statement of financial position at December 31, 2008. Any related expense and cash flow balances are included in the account discontinued operations. 2009 employee benefits presentation is no longer applicable.

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 2008 reporting date are presented below.

	2008
	% per annum
Expected return on plan assets at January 1	7.00
Inflation	N/A
Salary increases	N/A
Rate of discount at December 31	5.75
Pension payments increases	N/A

Timminco closed one of its operating plants during 2008. In addition to closing the plant, Timminco also closed Haley's pension plan and recognized a curtailment loss of $822 that is included within discontinued operations in the consolidated income statement for the year ended December 31, 2008. Due to the wind-up, the remaining service for active members is zero and as a result all unamortized gains or losses in excess of the 10% corridor are thereafter recognized in the respective accounting period. During 2008, Timminco had unamortized losses in excess of the 10% corridor of ($3,739). This amount is included in discontinued operations in the consolidated statement of income.

Bécancour Silicon Inc. ("BSI")

Timminco provides a contributory retirement defined benefit pension plan for employees of BSI, a subsidiary of Timminco Limited.

Actuarial assumptions

Principal actuarial assumptions at the 2008 reporting date are presented below.

	2008
	% per annum
Expected return on plan assets at January 1	7.00
Inflation	N/A
Salary increases—Union	2.80
Salary increases—Non-Union	3.00
Rate of discount at December 31	7.50
Pension payments increases	N/A
Health care inflation—Select	8.30
Health care inflation—Ultimate	4.70

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

European plans

UK plans

The Company sponsors the LSM 2006 Pension Plan and the LSM Additional Pension Plan, which are defined benefit arrangements. LSM's defined benefit pension plans cover all eligible employees in the UK.

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.

Substantially all plan assets are invested in listed stocks and bonds. The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the reporting 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 reporting date. The expected long-term return on cash is equal to bank base rates at the reporting date.

The expected long-term rates of return on plan assets are as follows:

	2009	2008
	% per annum	% per annum
Equities	9.60	8.30
Bonds	3.90-6.70	4.50-6.00
Cash	2.00	5.50
Other	3.90	4.50
Overall for UK plans	7.41	7.75

The actual return on plan assets for the year ending December 31, 2009 was 13.3% (2008: (10.3%)) for the primary and 11.7% (2008: (8.6%)) for the additional defined benefit plan.

LSM closed one of its pension plans to new employees and to further credit for current employees during 2006. Due to the wind-up, the remaining service for active members is zero and as a result all unamortized gains or losses in excess of the 10% corridor are thereafter recognized in the respective accounting period. During 2008, LSM had unamortized gains in excess of the 10% corridor of $9,863 which were recognized in the income statement.

Actuarial assumptions

	2009	2008
	% per annum	% per annum
Inflation	3.60	3.00
Salary increases	N/A	N/A
Rate of discount at December 31	5.65	6.70
Allowance for pension in payment increases of the Retail Prices Index ("RPI") or 5% p.a. if less	3.50	2.90
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	3.60	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 December 31, 2010 is $979. In the additional pension plan, only payments for expenses to run the plan, together with the levy for the Pension Protection Fund, are expected to be made in 2009.

ALD plans

ALD has defined benefit plans that cover employees in Germany. The benefits are based on years of service and average compensation.

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2009	2008
	% per annum	% per annum
Expected return on plan assets at January 1	3.75	3.75
Inflation	N/A	N/A
Salary increases	2.00	2.00
Rate of discount at December 31	5.41	5.70
Pension payments increases	1.75	2.00

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005G").

The best estimate of contributions to be paid to the plans for the year ending December 31, 2010 is approximately $1,046.

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.

An additional defined benefit plan covers two former managing directors from a previous acquisition. 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.

	2009	2008
	% per annum	% per annum
Inflation	2.25	2.25
Salary increases	3.00	3.00
Rate of discount at December 31	5.20	6.00
Pension payments increases	2.25	2.25

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005G" and "Heuback 2005G").

GfE plan assets consist of insurance contracts, and the expected long term rates of return are 5.00% for all periods.

The best estimate of contributions to be paid to GfE's plans for the year ending December 31, 2010 is approximately $2,533.

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.

	2009	2008
	% per annum	% per annum
Inflation	N/A	N/A
Salary increases	2.50	2.50
Rate of discount at December 31	3.90	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").

No contributions to Sudamin plans are expected for the year ending December 31, 2010.

Graphit Kropfmühl (GK) plans

Graphit Kropfmühl has two defined benefit plans that cover all of the employees in Germany. The plan benefits are not funded. Benefits are paid by insurance contracts and are based on years of service and average compensation.

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2009	2008
	% per annum	% per annum
Inflation	1.50	2.00
Salary increases	1.80	3.00
Rate of discount at December 31	5.25	6.00
Pension payment increases	1.50	2.00

Assumptions regarding future mortality are based on published statistics and mortality tables ("Heuback 2005G").

The best estimate of contributions to be paid to GK's plans for the year ending December 31, 2010 is approximately $593.

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

	North American plans		European plans	
	2009	2008	2009	2008
Present value of unfunded obligations	9,794	21,670	1,032	864
Present value of funded obligations	24,266	67,195	179,099	145,776
Total present value of obligations	34,060	88,865	180,131	146,640
Fair value of plan assets	(17,127)	(47,245)	(93,076)	(77,433)
Unamortized past service costs	–	(21)	–	–
Unrecognized actuarial (losses) gains	(5,727)	(14,167)	(10,872)	3,950
Net liability for defined benefit obligations	11,206	27,432	76,183	73,157

Movement in employee benefits

	North American plans		European plans	
	2009	2008	2009	2008
Recognized liability for defined benefit obligations at January 1	27,432	25,102	73,157	77,168
Discontinued operations in opening	(18,245)	–	–	–
Expense recognized in profit and loss (see below)	2,191	10,278	5,973	(6,921)
Curtailment impact recognized in profit and loss	–	822	–	–
Benefits paid directly by the employer	–	–	(3,926)	(4,088)
Defined benefit obligation from GK acquisition	–	–	–	12,439
Employer contributions	(172)	(4,730)	(1,328)	(1,284)
Effect of movements in foreign exchange rates	–	(4,040)	2,307	(4,157)
Net liability for defined benefit obligations at December 31	11,206	27,432	76,183	73,157
Asset for defined benefit obligations at December 31	–	–	3,969	2,587
Liability for defined benefit obligations at December 31	11,206	27,432	80,152	75,744

Plan assets consist of the following

	North American plans		European plans	
	2009	2008	2009	2008
Equity securities	9,209	22,498	22,065	16,970
Debt securities	7,233	24,147	64,374	55,176
Cash	343	300	77	122
Other	342	300	6,560	5,165
	17,127	47,245	93,076	77,433

Movement in present value of defined benefit obligations

	North American plans		European plans	
	2009	2008	2009	2008
Present value of defined benefit obligations at January 1	88,865	101,922	146,640	178,989
Discontinued operations in opening	(57,376)	–	–	–
Benefits paid directly by the employer or from the plan assets	(1,422)	(5,137)	(10,733)	(13,005)
Contributions from plan participants	–	341	–	–
Past service cost	–	–	607	–
Current service costs and interest (see below)	2,832	10,722	11,135	12,819
Curtailment impact recognized in profit and loss (see below)	–	822	–	–
Defined benefit obligation from GK acquisition	–	–	–	12,439
Plan amendments	–	(127)	–	(133)
Unrecognized actuarial losses (gains)	1,161	(5,745)	19,734	(40,664)
Effect of movements in foreign exchange rates	–	(13,933)	12,748	(3,805)
Present value of defined benefit obligations at December 31	34,060	88,865	180,131	146,640

Movement in fair value of plan assets

	North American plans		European plans	
	2009	2008	2009	2008
Fair value of plan assets at January 1	47,245	67,347	77,433	126,497
Discontinued operations in opening	(32,254)	–	–	–
Employer contributions	172	4,730	1,328	1,284
Contributions from plan participants	–	341	–	–
Benefits paid from the plan assets	(1,422)	(5,137)	(6,807)	(8,918)
Administration fees	–	(128)	–	–
Expected return on plan assets	1,196	4,687	5,669	9,127
Unrecognized actuarial gains (losses)	2,190	(16,462)	4,359	(50,420)
Effect of movements in foreign exchange rates	–	(8,133)	11,094	(137)
Fair value of plan assets at December 31	17,127	47,245	93,076	77,433

Expense (income) recognized in profit or loss

	North American plans		European plans	
	2009	2008	**2009**	2008
Current service costs	913	4,796	2,052	2,125
Past service costs	–	–	607	–
Interest on obligation	1,919	5,926	9,083	10,694
Expected return on plan assets	(1,196)	(4,687)	(5,669)	(9,127)
Recognized actuarial losses (gains)	555	4,239	(100)	(10,613)
Amortization of vested past service cost	–	4	–	–
Subtotal of expense recognized in profit and loss	2,191	10,278	5,973	(6,921)
Curtailment impact recognized in profit and loss	–	822	–	–
Expense (income) recognized in profit and loss	2,191	11,100	5,973	(6,921)

Net expense (income) recognized in profit and loss

The expense (income) is recognized in the following line items in the income statement:

	North American plans		European plans	
	2009	2008	**2009**	2008
Cost of sales	229	3,848	2,939	1,614
Selling, general and administrative expenses	1,962	7,252	3,034	(8,535)
Discontinued operations included above	–	(8,529)	–	–
	2,191	2,571	5,973	(6,921)

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

North American Plans

	2009	2008	2007	2006	2005
Defined benefit obligation	34,060	88,865	101,922	88,319	86,635
Plan assets	17,127	47,245	67,347	59,460	53,403
(Deficit) surplus	(16,933)	(41,620)	(34,575)	(28,859)	(33,232)
Experience adjustments on plan liabilities	59	6,713	1,167	(762)	–
Experience adjustments on plan assets	(2,190)	(1,420)	(3,541)	1,251	–

European Plans

	2009	2008	2007	2006	2005
Defined benefit obligation	180,131	146,640	178,989	186,267	192,374
Plan assets	93,076	77,433	126,497	120,123	100,723
(Deficit) surplus	(87,055)	(69,207)	(52,492)	(66,144)	(91,651)
Experience adjustments on plan liabilities	(6,567)	(26,073)	(246)	(8,250)	–
Experience adjustments on plan assets	15,360	(50,411)	1,660	5,541	–

28. Share-based payments

AMG

On May 13, 2009, the Annual General Meeting approved a new option plan for the Management Board, the 2009 AMG Option Plan (the "2009 Plan"). Each option issued under the 2009 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 half of the options granted to each option holder on any date will vest on each of the third and fourth anniversaries of the grant date. The vesting is subject to performance conditions related to return on capital employed and share price appreciation. The options expire on the tenth anniversary of their grant date.

On June 26, 2007, the Management Board established the AMG Option Plan (the "2007 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 2009 Plan were 182,927. During the year ended December 31, 2009, there were no grants exercised, expired or forfeited. All options under the 2009 Plan are equity settled, in accordance with IFRS 2, by award of options to acquire ordinary shares or award of ordinary shares. The fair value of these awards has been calculated at the date of grant of the award. The fair value, adjusted for an estimate of the number of awards that will eventually vest, is expensed using a graded vesting methodology. The fair value of the options granted was calculated using a binomial expected life model. The assumptions used in the calculation are set out below.

As detailed below during 2009, total grants under the 2007 Plan were 439,833 (2008: 923,333). The options granted in 2009 had special provisions, due to the fact that they were issued in lieu of salary. These options vested on December 31, 2008 as that was the end of the salary replacement period. As at December 31, 2009, there were no grants exercised (2008: 52,500) and grants expired or forfeited were 338,333 (2008: 27,500) All options under the 2007 Plan are equity settled, in accordance with IFRS 2, by award of options to acquire ordinary shares or award of ordinary shares. The fair value of these awards has been calculated at the date of grant of the award. The fair value, adjusted for an estimate of the number of awards that will eventually vest, is expensed using a graded vesting methodology. The fair value of the options granted was calculated using a binomial expected life model. The assumptions used in the calculation are set out below.

During the year ended December 31, 2009, AMG, in conjunction with the AMG Option Plan, recorded compensation from equity-settled share-based payment transactions amounted to $13,729 (2008: $16,909) which is included in selling and administrative expenses and cost of goods sold in the statement of operations.

Movements

	2009		2008	
In thousands of options	Number of Options	Weighted Average Exercise Price (in €)	Number of Options	Weighted Average Exercise Price (in €)
Outstanding at January 1	2,288	27.65	1,445	25.07
Granted during the year	623	8.54	923	31.73
Forfeited or expired during the year	(338)	26.03	(27)	35.64
Exercised during the year	–	–	(53)	42.28
Outstanding at December 31	2,573	23.24	2,288	27.65
Exercisable at December 31	1,275	20.30	314	25.10

1,274,833 options were exercisable as of December 31, 2009. 313,750 options were exercisable as of December 31, 2008.

At December 31, 2009, the number of common shares subject to options outstanding and exercisable was as follows:

Price Range	Outstanding Options (000's)	Weighted Average Exercise Price	Weighted Average Remaining Life	Exercisable Options (000's)	Weighted Average Exercisable Price
€8.00 to €9.84	622,760	8.54	9.51	439,833	8.00
€12.70 to €24.00	1,347,500	21.99	7.77	650,000	22.96
€29.45 to €40.50	530,000	38.93	8.42	157,500	37.95
€44.00 to €64.31	72,500	58.12	7.07	27,500	53.30

The maximum number of options that can be granted under the Plan is 10% of total shares outstanding up to a maximum of 50,000,000.

Assumptions

The following table lists the inputs into the binomial model used to calculate the fair value of the share-based payment options that were granted in 2009 under the 2009 Plan:

	2009
Exercise price	€9.84
Share price at date of grant	€9.84
Contractual life (years)	10
Dividend yield (%)	Nil
Expected volatility (%)	79.12%
Risk-free interest rate (%)	1.71%
Expected life of option (years)	3–4 years
Weighted average share price (€)	€6.96
Expected departures (%)	4.0%

The following table lists the inputs into the binomial model used to calculate the fair value of the share-based payment options that were granted in 2009 and 2008 under the 2007 Plan:

	2009	2008
Exercise price	€8.00	€12.70–€64.31
Share price at date of grant	€4.24	€12.70–€64.31
Contractual life (years)	10	10
Dividend yield (%)	Nil	Nil
Expected volatility (%)	79.12%	70.40–76.44%
Risk-free interest rate (%)	1.33%	4.07–4.17%
Expected life of option (years)	1 year	1–4 years
Weighted average share price (€)	€6.96	€38.16
Expected departures (%)	4.0%	4.0%

The expected volatility was calculated using the average historical share volatility of the Company's peers (over a period equal to the expected term of the options). The expected volatility reflects the assumption that the calculated volatility of the Company's peers would be indicative of future trends, which may not be the actual outcome. The expected life is the time at which options are expected to vest, however this also may not be indicative of exercise patterns that may occur. The 2007 Plan 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 2009 Plan options vest 50% each on the third and fourth anniversary of the grant date. There are performance requirements for vesting of these options. 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 22). The cumulative amount recorded in the share-based payment reserve in shareholders equity was $36,176 as of December 31, 2009 (2008: $19,277).

Cash-settled share-based payments

In May 2009, the Annual General Meeting approved a remuneration policy that utilizes cash-settled share-based payments as a part of compensation. As a result, the Company issued 505,574 performance share units (PSUs) to certain employees which are cash-settled. The fair value at issuance ranged from €3.21 to €3.88 while the fair value for these units at December 31, 2009 ranged from €6.71 to €8.12, depending on the vesting term. The Company has recorded a liability of $3,639 as of December 31, 2009. Fair value is determined using the binomial method using the following assumptions:

	2009
Contractual life (years)	3
Dividend yield (%)	Nil
Expected volatility (%)	79.12%
Risk-free interest rate (%)	0.85–1.65%
Expected life of option (years)	3
Expected departures (%)	10.0%

The Company recorded expense of $3,605 in the year ended December 31, 2009.

Timminco

Timminco granted stock options to certain key employees and directors to purchase common shares of Timminco subject to various vesting requirements.

During the year ended December 31, 2008, Timminco recorded stock-based compensation amounting to $3,154 which is now included in discontinued operations in the statement of operations.

A summary of the status of Timminco's two stock option plans as of December 31, 2008 and changes during that year-end. Since Timminco is no longer consolidated at December 31, 2009, no 2009 option information is being presented.

In thousands of options and Canadian Dollars	Number of Options	Weighted Average Exercise Price
	2008	2008
Outstanding at January 1	4,130	C$0.72
Granted during the year	7,940	C$7.97
Exercised during the year	(421)	C$0.61
Forfeited during the year	(300)	C$2.91
Outstanding at December 31	11,349	C$5.74
Exercisable at December 31	2,174	C$0.78

The maximum number of common shares that can be subject to options granted under the 2004 Plan is 7,332,175 and under the 2008 Plan is 10,000,000.

Assumptions

The following table lists the inputs into the Black-Scholes model used to calculate the fair value of the share-based payment options:

	2008
Exercise price	C$10.05–C$13.27
Share price at date of grant	C$10.05–C$13.27
Contractual life (years)	7–10
Dividend yield (%)	Nil
Expected volatility (%)	105.4–107.3%
Risk-free interest rate (%)	3.25–4.05%
Expected life of option (years)	7–10
Weighted average share price (€)	C$7.97

29. Provisions

	Environmental remediation	Restructuring	Warranty	Project Costs	Partial Retirement	Other	Total
Balance at January 1, 2008	9,924	1,368	3,629	3,482	1,582	4,982	24,967
Provisions made during the period	5,233	5,129	8,718	3,487	(9)	1,586	24,144
Acquisitions	2,312	–	191	–	–	–	2,503
Provisions used during the period	(3,053)	(2,545)	(446)	(1,158)	(306)	(2,503)	(10,011)
Increase due to discounting	543	–	–	–	–	–	543
Currency and reversals	(1,099)	(363)	(2,801)	(1,504)	(56)	(1,137)	(6,960)
Balance at December 31, 2008	13,860	3,589	9,291	4,307	1,211	2,928	35,186
Balance at January 1, 2009	13,860	3,589	9,291	4,307	1,211	2,928	35,186
Discontinued operations in opening	(4,805)	(1,673)	–	–	–	–	(6,478)
Provisions made during the period	3,998	7,782	6,462	2,256	397	440	21,335
Provisions used during the period	(1,352)	(2,971)	(567)	(1,458)	(585)	(1,420)	(8,353)
Increase due to discounting	1,923	–	–	–	–	–	1,923
Currency and reversals	284	(1,611)	(1,529)	(1,541)	29	(1,297)	(5,665)
Balance at December 31, 2009	13,908	5,116	13,657	3,564	1,052	651	37,948
Non-current	13,641	401	–	–	522	298	14,862
Current	267	4,715	13,657	3,564	530	353	23,086
Balance at December 31, 2009	13,908	5,116	13,657	3,564	1,052	651	37,948
Non-current	10,904	913	–	–	692	332	12,841
Current	2,956	2,676	9,291	4,307	519	2,596	22,345
Balance at December 31, 2008	13,860	3,589	9,291	4,307	1,211	2,928	35,186

Timminco Provisions

Timminco was deconsolidated as of September 28, 2009. See note 6.

Closure of Haley Facility

On June 6, 2008, Timminco reorganized its magnesium operations and announced the closure of its Haley, Ontario manufacturing facility. The Haley facility manufactured cast magnesium billet used in Timminco's magnesium extrusion operations in Aurora, Colorado and also produced specialty magnesium granules and turnings for third party customers. The closure of the Haley facility resulted in accelerated recognition of certain environmental costs of $3,800 and severance costs of $2,250 which were the costs of a 39-person headcount reduction. All costs related to the Haley closure are included in the discontinued operations line of the income statement for the year ended December 31, 2008.

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. The Company completed all work for this remediation in 2009. In addition to the capital spending required for the actual cap on the slag piles, the Company has reserved for ongoing operations and maintenance expenses (O&M) at the site. This O&M is required to be provided for 1000 years and is expected to cost $44.7 million on an undiscounted basis. Other environmental items requiring provision include: wetlands remediation, stormwater remediation and maintenance. These projects are expected to create cash outflows of $739, on an undiscounted basis, and are expected to be completed within the next 5 years.

SMC: Newfield, NJ

SMC has entered into administrative consent orders with the New Jersey Department of Environmental Protection under which SMC must conduct remediation activities at the Newfield facility. Since the initial administrative consent order was signed in 1997, many of the obligations of SMC have been completed.

In January 2006, SMC entered into a fixed price re-mediation contract with TRC Companies Inc. ("TRC"), whereby TRC assumes primary responsibility for all non-radiological groundwater environmental remediation obligations at the Newfield facility, with certain exceptions for one contaminant, perchlorate. The initiation of this remediation contract also led to a new Administrative Consent Order ("ACO") that was signed in February 2006. This ACO specifically designated TRC as the entity primarily responsible for the non-radiological contamination and also specifically cited SMC as responsible for the clean-up associated with any perchlorate contamination. This agreement was approved by the New Jersey Department of Environmental Protection (NJDEP) and received final approval by the US Environmental Protection Agency in March 2006. Under the terms of this agreement, SMC made payments totaling $16,900 between 2006 and 2008 in order to complete the risk transfer to TRC.

Similar to the Cambridge, Ohio facility, Newfield also conducted operations that created a substantial slag pile with low-level radioactive materials. After SMC ceased the production operation that created this slag, it notified the NRC and commenced preparation of the decommissioning plan. This plan has been through technical review with the NRC. SMC is currently re-working the decommissioning plan to meet the NRC's expectations. Based on this plan, the costs to cap the slag pile are estimated to be $7,263 and are expected to be paid over the next 2 to 4 years. In addition, SMC will have to provide O&M for the site for 1000 years, estimated to cost $49.7 million on an undiscounted basis. These amounts have increased from previous estimates. During the year ended December 31, 2009, SMC submitted a revised decommissioning plan to address the review comments of the NRC. This revised decommissioning plan included revised estimates for both capping and O&M requirements. Due to the revised estimates, an additional provision of $3,824 was recorded. Until the capping is completed, SMC is required to pay the NRC for its oversight costs. In the year ended December 31, 2008, additional NRC costs in the amount of $1,325 were recorded.

Remediation trust funds

SMC and MVC established trust funds to accumulate funds for future environmental remediation payments. Amounts are paid out from the trust fund following completion and approval of rehabilitation work. The contributions to the trust funds were placed with investment banks which are responsible for making investments in equity and money market instruments. The trust funds are to be used according to the terms of the trust deed which require that these funds be used for the 1000-year O&M at the sites. The assets are not available for the general use of SMC and MVC. The trust funds are discounted and are shown within other non-current assets in the consolidated statement of financial position. The discounted values of the trust funds at December 31, 2009 are $2,231 (2008: $244). The undiscounted amounts in the trust funds as of December 31, 2009 are $4,931 (2008: $4,800).

CIF: Sao Joao del Rei, Brazil

In the year ended December 31, 2009, CIF recorded an expense of $42 (2008:$108) related to a decommissioning liability at its mine. The total provision amount of $211 has been recorded after taking into effect the Brazilian laws that are in place related to decommissioning. The provision is based on the amount of ore removed from the mine and the expected cost to bring the mine back to government regulations in the case of a decommisioning.

Graphit Kropfmühl: Hauzenberg, Germany

In April 2008, the Company acquired 79.52% of the outstanding shares of Graphit Kropfmühl (GK). A recultivation provision was recorded on GK's books as it relates to its graphite mine in Germany and was recorded at fair value as part of the purchase accounting performed for this acquisition. The value of this provision as of December 31, 2009 and 2008 was $2,267 and $2,125, respectively.

Restructuring

As a result of the global economic downturn, AMG and its subsidiaries recorded restructuring costs of $7,782 in the year ended December 31, 2009. $6,634 of this amount related to severance due to the reduction of 155 people within the group. Additional amounts related to the termination of certain contracts. During 2008, the Advanced Materials segment recorded restructuring costs of $2,283, of which $2,046 was severance due to the reduction of 65 people within the division. An additional $237 was accrued related to an onerous lease at one of the shutdown facilities.

Warranty

Engineering Services offers certain warranties related to their furnace operations. These warranties are only provided on certain contracts and the provisions are made on a contract by contract basis. Each contractual warranty is expected to be utilized or derecognized within 12 months. The provisions for these warranties are based on the historical return percentages. There were $5,684 of additional provisions during 2009 (2008: $7,984) and payments of $531 (2008: $234).

Another German subsidiary provides for warranties for certain products. The provision is based on actual claims made by customers. There were $778 of additional provisions during 2009 (2008: $719) and payments of $36 (2008: $144).

Project Costs

Engineering Services builds a project cost provision on a contract by contract basis. The amounts are a result of expected project costs and are based on historical percentages. Each project cost is utilized or derecognized over the life of the project.

Partial Retirement

In an effort to reduce unemployment and create jobs for younger job-seekers, Germany implemented certain regulations in 1996 to enable employees to take early retirement. Although the law is no longer in effect, a German subsidiary has made provisions for those employees who are eligible per their employment contracts. During 2009, there were additional provisions of $397 (2008: ($9)) and payments of $585 (2008: $306).

Other

Other is mainly comprised of a share purchase liability related to our Engineering Systems Division. The share purchase liability relates to a subsidiary acquired in 2005. This liability was settled in the year ended December 31, 2008 with the remaining balance being reclassified as a reduction of goodwill. Also included in other are certain guarantees made to various customers.

30. Government grants

	Government Grants
Balance at January 1, 2008	16,512
Provisions made during the period	–
Provisions used during the period	(8,184)
Acquired through acquisition	655
Currency and reversals	(332)
Balance at December 31, 2008	8,651
Balance at January 1, 2009	8,651
Provisions made during the period	619
Provisions used during the period	(8,402)
Acquired through acquisition	
Currency and reversals	35
Balance at December 31, 2009	903
Non-current	669
Current	234
Balance at December 31, 2009	903
Non-current	291
Current	8,360
Balance at December 31, 2008	8,651

The Engineering Systems entered into a grant in 2007 related to its site in Berlin. The State of Berlin obligated that at least 70 permanent jobs be maintained at the site by the end of 2007 and an additional 80 by the end of 2008 maintaining these 150 permanent jobs until the end of 2009. In the event of a breach of this contract, the Company would be required to pay a penalty of €50,000 multiplied by the number of jobs less than 150 at the site at that time. There were 157 employees at the Berlin site as of December 31, 2009 (2008: 156) which successfully completed the terms of the grant. Under government grant accounting, ALD established a provision for the personnel expenses which was reduced by the income from the government grant over the expected term that these expenses were incurred. The initial estimate of personnel expenses and revisions to those estimates led to income recognition of $3,820 in the year ended December 31, 2009 (2008: $4,288). As of December 31, 2009, the entire Berlin grant was utilized and therefore there is no balance remaining. As of December 31, 2008, the entire Berlin grant amount of $8,183 was treated as current due to the term of the grant.

In the year ended December 31, 2008, AMG acquired 79.52% of GK. GK has government grant obligations related to retention of personnel and its capital investment in the state of Bavaria, Germany. According to the grants received, GK is expected to create or maintain a certain number of employees over the course of the grant. The liability for the grant is being reduced as money is spent on capital expansion. As of December 31, 2009, the current and non-current portions of the grants were $234 and $669 respectively. As of December 31, 2008, the current and non-current portions of the grants were $177 and $291 respectively.

31. Unearned Revenue

	Unearned Revenue
Balance at January 1, 2008	–
Deferred during the period	42,998
Released to the income statement	(1,822)
Currency and reversals	(5,552)
Balance at December 31, 2008	35,624
Balance at January 1, 2009	35,624
Discontinued operation in opening balance	(35,624)
Balance at December 31, 2009	–
Non-current	–
Current	–
Balance at December 31, 2009	–
Non-current	–
Current	35,624
Balance at December 31, 2008	35,624

During the year ended December 31, 2008, Timminco received deposits from customers of $42,998 under the terms of solar grade silicon supply contracts. During the year ended December 31, 2009, certain of these amounts were converted into debt ($12,258) and equity ($8,905). As at September 28, 2009, the Company's ownership of Timminco went from 50.8% to 47.9%, resulting in a deemed disposal. At the date of deemed disposal, all balance sheet items were derecognized from AMG's consolidated statement of financial position and the Company now accounts for Timminco using the equity method of accounting.

32. Other liabilities

Other liabilities are comprised primarily of the following:

	2009	2008
Accrued bonus	5,555	13,502
Accrued interest	3,361	3,800
Accrued professional fees	5,913	7,410
Accrued employee payroll expenses	4,690	6,010
Accruals for operational costs	2,632	4,632
Claims	3,261	3,652
Fiscal contingency	1,686	2,821
Other benefits and compensation	14,302	8,926
Taxes, other than income	2,780	4,572
Other miscellaneous liabilities	9,983	7,802
	54,163	63,127
Thereof:		
Current	46,179	53,882
Long-term	7,984	9,245

33. Trade and other payables

	2009	2008
Trade payables	58,468	140,207
Trade Payables—Percentage of Completion	11,323	16,490
	69,791	156,697

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 or semi-annually throughout the financial year

- For terms and conditions relating to related parties, refer to note 39.

34. Financial risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, are comprised of loans and borrowings, related party debt, short term debt, unearned revenue 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 enters into derivative financial instruments, primarily interest rate swaps, foreign exchange forward contracts and commodity contracts. The purpose of these instruments is to manage interest rate, currency and commodity 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 analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The main risks arising from the Company's financial instruments are: credit, liquidity, interest rate, foreign currency, and commodity.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company's exposure to credit risk with respect to trade and other receivables is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. No single customer accounts for more than 10% of the Company's revenue and geographically, there are no concentrations of credit risk. The Company trades only with creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures which ensure their creditworthiness. In addition, receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to impairment losses is not significant. Collateral is generally not required for trade receivables, although the Company's percentage of completion contracts do often require advance payments. The Company's maximum exposure is the carrying amount as discussed in note 17.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and certain derivative instruments, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of the instruments. The Company's Treasury function monitors the location of cash and cash equivalents and the counterparties to hedges and monitors the strength of those banks. Bank strength is presented to the Supervisory Board at least annually. This review is set to minimize the concentration of risks and therefore mitigate potential financial loss through counterparty failure.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company monitors cash flows at varying levels. At the Company level, this monitoring is done on a weekly basis. However, at certain subsidiaries, this type of monitoring is done daily. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of eight weeks, including the servicing of financial obligations. In addition, the Company maintains the following lines of credit:

- $175,000 revolving credit facility with a syndicate of banks that is secured by the assets of the material subsidiaries of the Company. Interest is payable at a base rate + a spread based on a coverage ratio.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2009 based on contractual undiscounted payments.

2009	Contractual Cash Flows	< 3 months	3–12 months	2011	2012	2013	2014	> 2014
Term loan/revolver	140,769	–	–	–	140,769	–	–	–
Cash interest on term loan	8,697	305	915	4,401	3,076	–	–	–
Fixed rate loans and borrowings	37,137	638	2,740	4,184	18,527	3,493	1,894	5,661
Cash interest on loans and borrowings	10,248	861	2,459	3,093	2,188	456	326	865
Financial derivatives	8,812	(92)	5,820	1,144	952	636	166	186
Financial lease liabilities	105	65	24	16	–	–	–	–
Pension plan obligations	121,535	1,073	4,106	5,266	5,435	5,510	5,586	94,559
Environmental remediation liabilities	103,997	267	–	1,956	3,058	3,064	1,519	94,133
Trade and payables	69,791	56,521	13,270	–	–	–	–	–
Short term bank debt	32,013	20,373	11,640	–	–	–	–	–
Other	46,161	22,534	11,487	3,375	2,805	2,302	2,041	1,617
Total	**579,265**	**102,545**	**52,461**	**23,435**	**176,810**	**15,461**	**11,532**	**197,021**

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2008 based on contractual undiscounted payments.

2008	Contractual Cash Flows	< 3 months	3–12 months	2010	2011	2012	2013	> 2013
Term loan/revolver	108,289	–	–	–	–	108,289	–	–
Cash interest on term loan	13,312	–	4,418	3,040	2,986	2,868	–	–
Fixed rate loans and borrowings	27,242	187	921	1,214	1,507	15,438	1,342	6,633
Floating rate loans and borrowings	8,232	534	1,353	1,711	1,711	1,712	1,211	–
Cash interest on loans and borrowings	11,011	769	2,072	2,568	2,419	1,624	397	1,162
Related party debt	5,748	–	–	5,748	–	–	–	–
Interest on related party debt	819	–	–	819	–	–	–	–
Financial derivatives	12,182	5,491	4,253	1,842	221	187	124	64
Financial lease liabilities	480	63	197	135	59	25	1	–
Pension plan obligations	137,959	1,497	5,236	6,835	7,312	7,426	7,246	102,407
Environmental remediation liabilities	14,312	334	1,001	1,033	3,448	3,191	1,292	4,013
Trade and payables	156,697	138,036	18,661	–	–	–	–	–
Short term bank debt	83,566	29,671	11,870	42,025	–	–	–	–
Deferred revenue	35,624	2,846	18,043	14,735	–	–	–	–
Other	39,805	25,010	8,120	1,950	1,339	1,387	1,116	883
Total	**655,278**	**204,438**	**76,145**	**83,655**	**21,002**	**142,147**	**12,729**	**115,162**

Interest on financial instruments classified as floating rate is generally repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The difference between the contractual cash flows and the carrying amount of the term loan noted above is attributable to issuance costs in the amount of $5,934 and $7,540 as of December 31, 2009 and 2008, respectively, which are offset against the carrying amount of the debt.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Company's income or the value of its holdings of financial instruments. The Company's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Company's floating rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not exposed to interest rate risk.

The Company's current policy is to maintain approximately 60% of its borrowings as fixed rate borrowings. The Company either enters into fixed rate debt or strives to limit the variability of certain floating rate instruments through the use of interest rate caps or interest rate swaps. These are designed to hedge underlying debt obligations. At December 31, 2009, after taking into account the effect of interest rate swaps, approximately 71% of the Company's borrowings are at a fixed rate of interest (2008: 59%)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates adjusting for multiple interest rate swaps effective as at December 31, 2009 and 2008, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings). Changes in sensitivity rates reflect various changes in the economy year-over-year. There is no impact on the Company's equity.

	Increase/ decrease in basis points	Effect on profit before tax
2009		
USD ***		(87)
Euro	+10	(8)
USD ***		50
Euro	-10	8

	Increase/ decrease in basis points	Effect on profit before tax
2008		
USD ***		(130)
Euro	+5	(2)
CAD	+5	(3)
USD ***		137
Euro	-10	4
CAD	-20	13

*** Historic volatility on certain USD short term debt varies across a wide range from +100 basis points to -25 basis points. Sensitivities are calculated on the actual volatility for each debt instrument.

See note 24 for loans and borrowings explanations.

At December 31, 2009, the Company's interest rate swaps had a fair value of ($4,780) (2008: ($3,565)). Per the agreements, the Company pays a fixed rate and receives a floating rate based on the 6 month, 3 month or 1 month USD EURIBOR. The following table demonstrates the sensitivity to a reasonably possible change in interest rates using the EURIBOR swap curve with all other variables held constant, of the Company's equity and profit before tax. There is impact in the income statement for one ineffective interest rate swap in the years ended December 31, 2009 and 2008. Changes in sensitivity rates reflect various changes in the economy year-over-year.

	Increase/ decrease in basis points	Effect on equity	Effect on profit before tax
2009			
USD	+5	(79)	9
USD	-10	(312)	(17)

	Increase/ decrease in basis points	Effect on equity	Effect on profit before tax
2008			
USD	+5	(155)	10
USD	-10	(487)	(19)

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 primarily comprised of the US Dollar, Euro and Canadian Dollar. Since the financial reporting currency of the Company is US Dollar, the financial statements of those non US Dollar operating subsidiaries are translated so that the financial results can be presented in the Company's consolidated financial statements.

Each subsidiary conducting business with third parties that leads to future cash flows denominated in a currency other than its functional currency is exposed to the risk from changes in foreign exchange rates. It is the Company's policy to use forward currency contracts to minimize the currency exposures on net cash flows. For certain subsidiaries, this includes managing balance sheet positions in addition to forecast and committed transactions. For these contracts, maturity dates are established at the end of each month matching the net cash flows expected for that month. Another subsidiary hedges all sales transactions in excess of a certain threshold. For this subsidiary, the contracts mature at the anticipated cash requirement date. Most forward exchange contracts mature within twelve months and are predominantly denominated in US Dollars, British Pound Sterling and Euros. When established, the forward currency contract must be in the same currency as the hedged item. It is the Company's policy to negotiate the terms of the hedge derivatives to closely match the terms of the hedged item to maximize hedge effectiveness. The Company seeks to mitigate this risk by hedging at least 70% of transactions that occur in a currency other than the functional currency.

In respect of monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

The Company deems its primary currency exposures to be in US Dollars, Euros and Canadian Dollars. The following table demonstrates the sensitivity to a reasonably possible change in the three functional currencies of the Company: US Dollar, Euro and Canadian Dollar exchange rates with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Company's equity (due to changes in the fair value of forward exchange contracts). Changes in sensitivity rates reflect various changes in the economy year-over-year.

	Strengthening/ weakening in functional rate	Effect on profit before tax	Effect on equity before tax
2009			
US Dollar	+5%	(227)	515
Euro	+5%	(182)	(80)
Canadian Dollar	+5%	11	–
US Dollar	-5%	227	(515)
Euro	-5%	182	80
Canadian Dollar	-5%	(11)	–

	Strengthening/ weakening in functional rate	Effect on profit before tax	Effect on equity before tax
2008			
US Dollar	+10%	(145)	478
Euro	+5%	(6)	161
Canadian Dollar	+5%	469	–
US Dollar	-5%	54	(196)
Euro	-10%	(57)	(538)
Canadian Dollar	-10%	(1,162)	–

Commodity price risk

Commodity price risk is the risk that certain raw materials prices will increase and negatively impact the gross margins and operating results of the Company. The Company is exposed to volatility in the prices of raw materials used in some products and uses forward contracts to manage some of these exposures. For certain metals, the Company aims to maintain a greater than 50% hedged position in order to avoid undue volatility in the sales prices and purchase costs attained in the normal course of business. Commodity forward contracts are generally settled within twelve months of the reporting date. Changes in sensitivity rates reflect various changes in the economy year-over-year.

	Change in price	Effect on profit before tax	Effect on equity before tax
2009			
Aluminum	+5%	218	60
Nickel	+5%	(19)	–
Copper	+5%	(5)	22
Aluminum	-10%	(436)	(121)
Nickel	-10%	38	–
Copper	-10%	11	(45)

	Change in price	Effect on profit before tax	Effect on equity before tax
2008			
Aluminum	+5%	236	38
Nickel	+5%	20	–
Copper	+5%	(33)	(13)
Aluminum	-10%	(472)	(77)
Nickel	-10%	(39)	–
Copper	-10%	66	25

Capital Management

The primary objective of the Company is to maintain strong capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of economic conditions. Its policy is to ensure that the debt levels are manageable to the Company and that they are not increasing at a level that is in excess of the increases that occur within equity. During the planning process, the expected cash flows of the Company are evaluated and the debt to equity and debt to total capital ratios are evaluated in order to ensure that levels are improving year-over-year. Debt to total capital is a more appropriate measure for the Company due to its initial equity values of the subsidiaries from the combination in 2007. Management deems total capital to include all debt (including short term, related party and long term) 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%.

	2009	2008
Loans and borrowings	171,783	142,011
Related party loans	–	6,456
Short term bank debt	32,013	83,566
Trade payables	69,791	156,697
Less cash and cash equivalents	117,016	143,473
Net debt	156,571	245,257
Net debt	156,571	245,257
Total equity	228,423	311,811
Total capital	384,994	557,068
Debt to total capital ratio	0.41	0.44

35. 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:

		2009		2008	
	Note	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Current financial assets					
Derivatives in effective hedges	35	4,403	4,403	538	538
Financial assets at fair value through profit or loss	35	551	551	5,855	5,855
Investments in equity securities	15	970	970	4,679	4,679
Trade and other receivables	17	147,787	147,787	173,422	173,422
Short term investments	19	–	–	95	95
Cash and cash equivalents	21	117,016	117,016	143,473	143,473
Total current financial assets		270,727	270,727	328,062	328,062
Non-current financial assets					
Embedded derivative		1,718	1,718	–	–
Notes receivable		5,542	5,542	2,132	2,132
Restricted cash	20	13,263	13,263	15,889	15,889
Total non-current financial assets		20,523	20,523	18,021	18,021
Current financial liabilities					
Derivatives in effective hedges	35	4,683	4,683	9,895	9,895
Financial current liabilities at fair value through profit or loss	35	1,365	1,365	5,524	5,524
Fixed rate loans and borrowings	24	3,464	3,464	2,844	2,844
Floating rate loans and borrowings	24	–	–	177	177
Short term bank debt	26	32,013	32,013	83,566	83,566
Related party debt	25	–	–	6,456	6,456
Unearned revenue	31	–	–	35,624	35,624
Trade and other payables	33	69,791	69,791	156,697	156,697
Total current financial liabilities		111,316	111,316	300,783	300,783
Non-current financial liabilities					
Derivatives in effective hedges	35	965	965	–	–
Financial non-current liabilities at fair value through profit or loss	35	374	374	3,530	3,530
Fixed rate loans and borrowings	24	129,496	127,632	121,990	122,866
Floating rate loans and borrowings	24	38,823	38,823	17,000	17,000
Total non-current financial liabilities		169,658	167,794	142,520	143,396

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate the fair values.

- Short term assets and liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.
- The calculation of fair value for derivative financial instruments depends on the type of instruments: Derivative interest rate contracts are estimated by discounting expected future cash flows using current market interest rates and yield curves over the remaining term of the instrument; Derivative currency and commodity contracts are based on quoted forward exchange rates and commodity prices respectively.
- Floating rate loans and borrowings and notes receivable maintain a floating interest rate and therefore approximate fair value.
- The fair value of fixed rate loans and borrowings are estimated by discounting future cash flows using rates currently available for debt.
- The fair value of embedded derivatives is estimated using an option pricing model. The embedded derivative represents a conversion feature in a note from an associate. See note 39 for details.

The Company made strategic investments in certain growth-based companies in Germany and Iceland in 2008.

These equity investments cannot be reliably measured at fair value and are therefore accounted for using a cost basis. During 2009, the Company increased its ownership in the German company and it is now accounted for under the equity method (see note 15). At December 31, 2008, these investments were $4,679. At December 31, 2009, the Iceland investment was $970 and is included in other assets in the statement of finanical position.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As of December 31, 2009, the Company held the following financial instruments measured at fair value:

Assets measured at fair value

	December 31, 2009	Level 1	Level 2	Level 3
Financial assets				
Forward contracts—hedged	4,403	–	4,403	–
Forward contracts—non-hedged	551	–	551	–
Embedded derivative	1,718	–	1,718	–

Liabilities measured at fair value

	December 31, 2009	Level 1	Level 2	Level 3
Financial liabilities				
Forward contracts—hedged	1,242	–	1,242	–
Forward contracts—non-hedged	1,365	–	1,365	–
Interest rate swaps	4,780	–	4,780	–

During the year ended December 31, 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Hedging activities

Interest rate hedges

In October 2007, the Company entered into an interest rate hedge agreement for the entire drawdown of the term loan which was €71.5 million (see note 24). 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. At December 31, 2009, the fair value of the interest rate swap was ($3,441) (2008: ($2,711)).

GK entered into five interest rate hedges for a variety of floating rate debt instruments to minimize interest rate risk. The swap agreements provide for fixed interest rates paid either monthly or quarterly by the Company and a payment made by the counterparty of EURIBOR. The contracts expire between 2009 and 2013 depending on each contract's underlying debt maturity. Management has designated the interest rate swaps as cash flow hedges of the forecasted interest payments on each respective debt. At December 31, 2009, the fair value of the various interest rate swaps was $(1,339) (2008: ($854)).

One interest rate swap contract was ineffective as at December 31, 2008. Therefore, all amounts are directly recognized in the income statement. As at December 31, 2009 there was an increase to interest expense of $99 (2008: $280). The amount from cash flow hedges included in equity was ($3,083) and ($3,565) in the years ended December 31, 2009 and 2008, respectively. During the years ended December 31, 2009 and 2008, $1,672 and $455, respectively, were transferred from equity to the income statement as increases 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.

Commodity forward contracts have been designated as cash flow hedges.

The open commodity forward contracts as at December 31, 2009 are as follows:

US Dollar denominated contracts to purchase commodities:	Metric Tons	Average price	Fair value
Aluminum forwards	4,050	1,904	1,327
Copper forwards	125	6,106	160
US Dollar denominated contracts to sell commodities:	**Metric Tons**	**Average price**	**Fair value**
Aluminum forwards	925	2,108	43
Copper	25	6,982	12

The open commodity forward contracts as at December 31, 2008 are as follows:

US Dollar denominated contracts to purchase commodities:	Metric Tons	Average price	Fair value
Aluminum forwards	4,000	2,310	(3,157)
Nickel forwards	225	6,730	(845)
US Dollar denominated contracts to sell commodities:	**Metric Tons**	**Average price**	**Fair value**
Aluminum forwards	925	1,490	33
Copper	25	3,072	4

Due to the economic recession, there were less purchases and sales of commodities at the end of 2008 and the beginning of 2009 than originally planned. Therefore, some contracts no longer received hedge accounting treatment. The amount of ineffectiveness recognized in profit or loss that arose from the commodity cash flow hedges in the year ended December 31, 2009 was an increase of $453 (2008: $2,142) to cost of sales. The amount from the commodity cash flow hedges included in equity was $1,432 and ($4,325) in the years ended December 31, 2009 and 2008, respectively. During the years ended December 31, 2009 and 2008, $2,072 and ($1,148), respectively, were transferred from equity to the income statement as increases (decreases) to cost of sales.

Foreign currency forward contracts

At any point in time, the Company also uses foreign exchange forward contracts to hedge a portion of its estimated foreign currency exposure in respect of: forecasted sales and purchases and intergroup loans that will be repaid in different functional currencies. These contracts are negotiated to match the terms of the commitments and generally mature within one year. When necessary, these contracts are rolled over at maturity. Some foreign exchange forward contracts have been designated as cash flow hedges, while other contracts, although part of the risk management strategy, have not met the documentation requirements for hedge accounting and are therefore treated as economic hedges.

The open foreign exchange forward sales contracts as at December 31, 2009 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
Cash Flow Hedges				
Euro (versus USD)	€17.9 million	1.438	272	(162)
USD (versus Euro)	$22.0 million	1.445	515	(179)
GBP (versus USD)	£1.5 million	1.663	102	–
Economic Hedges				
USD (versus Euro)	$3.4 million	1.447	–	(27)
CAD (versus USD)	CAD 3.6 million	0.928	–	(93)
Euro (versus USD)	€19.1 million	1.420	527	(829)

The open foreign exchange forward sales contracts as at December 31, 2008 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
Cash Flow Hedges				
Euro (versus USD)	€15.9 million	1.386	331	(314)
USD (versus Euro)	$31.1 million	1.469	202	(2,188)
Economic Hedges				
USD (versus Euro)	$10.3 million	1.419	74	(454)
USD (versus CAD)	$9.0 million	1.237	29	–
Euro (versus CAD)	€12.0 million	1.580	–	(1,224)
Euro (versus USD)	€71.1 million	1.413	5,644	(2,438)
Peso (versus USD)	Peso 42.5 million	13.560	60	–

The open foreign exchange forward purchase contracts as at December 31, 2009 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
Cash Flow Hedges				
USD (versus Euro)	$4.1 million	1.502	165	–
Pound Sterling (versus USD)	£16.8 million	1.646	–	(845)
Brazil Reais (versus USD)	R$39.4 million	1.965	1,863	–
Euro (versus USD)	€110.6 million	1.471	18	(408)
Economic Hedges				
USD (versus Euro)	$1.9 million	1.447	6	(9)

The open foreign exchange forward purchase contracts as at December 31, 2008 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
Cash Flow Hedges				
USD (versus Peso)	Peso 42.5 million	13.225	–	(139)
USD (versus Euro)	$4.0 million	1.357	17	(103)
Pound Sterling (versus USD)	£14.8 million	1.606	–	(2,365)
Brazil Reais (versus USD)	R$ 20.9 million	1.896	–	(2,158)

Due to the economic recession, some contracts were ineffective and no longer received hedge accounting treatment. The amount of ineffectiveness recognized in profit or loss that arose from the foreign currency cash flow hedges in the year ended December 31, 2009 was an increase of $410 to cost of sales. There was no ineffectiveness recognized in profit or loss as of December 31, 2008. The amounts from the foreign currency cash flow hedges included in equity were $2,375 and ($6,717) in the years ended December 31, 2009 and 2008, respectively. During the years ended December 31, 2009 and 2008, $6,211 and $1,091, respectively, were transferred from equity to the income statement as increases to cost of sales.

36. 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 and lease payments based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases.

The Company also holds a hereditary land building right at its Berlin location. This building right requires lease payments to be made annually and does not expire until 2038.

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

	2009	2008
Less than one year	8,133	9,754
Between one and five years	24,389	26,811
More than five years	9,742	11,035
	42,264	47,600

During the year ended December 31, 2009 $9,069 was recognized as an expense in the income statement in respect of operating leases (2008: $10,329).

Finance leases as lessee

Certain subsidiaries of the Company have finance leases for equipment and software. These non-cancelable leases have remaining terms between one and five years. Future minimum lease payments under finance leases are as follows:

	2009	2008
Less than one year	88	260
Between one and five years	16	220
Total minimum lease payments	104	480
Less amounts representing finance charges	(6)	(77)
Present value of minimum lease payments	98	403

37. Capital commitments

The Company's capital expenditures include projects to improve the Company's operations and productivity, replacement projects and ongoing environmental requirements (which are in addition to expenditures discussed in note 29). As of December 31, 2009, the Company had committed to capital requirements in the amount of $17,769 (2008: $31,474).

38. Contingencies

Guarantees

The following table outlines the Company's off-balance sheet credit-related guarantees and business-related guarantees for the benefit of third parties as of December 31, 2009 and 2008:

	Business-related guarantees	Credit-related guarantees	Letters of Credit	Total
2009				
Total Amounts Committed:	49,735	552	5,215	55,502
Less than 1 year	19,966	552	438	20,956
2–5 years	15,377	–	–	15,377
After 5 years	14,392	–	4,777	19,169
2008				
Total Amounts Committed:	53,163	8,614	5,357	67,134
Less than 1 year	44,690	8,614	271	53,575
2–5 years	2,903	–	–	2,903
After 5 years	5,570	–	5,086	10,656

In the normal course of business, the Company has provided indemnifications in various commercial agreements which may require payment by the Company for breach of contractual terms of the agreement. Counterparties to these agreements provide the Company with comparable indemnifications. The indemnification period generally covers, at maximum, the period of the applicable agreement plus the applicable limitations period under law. The maximum potential amount of future payments that the Company would be required to make under these indemnification agreements is not reasonably quantifiable as certain indemnifications are not subject to limitation. However, the Company enters into indemnification agreements only when an assessment of the business circumstances would indicate that the risk of loss is remote.

As discussed in note 30, the Engineering Systems Division had an obligation for personnel expenses relating to its investment site in Berlin. The State of Berlin required that at least 70 permanent jobs be maintained at the site by the end of 2007 and an additional 80 by the end of 2008 with 150 of these permanent jobs being maintained until the end of 2009. In the event of a breach of this contract, the Company would be required to pay a penalty of €50,000 multiplied by the number of jobs less than 150 at the site at that time. There were 157 employees at the Berlin site as of December 31, 2009 (2008: 156) and therefore, the obligation has been fulfilled and the contingency has been effectively eliminated.

The Company has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. The Company has $75 million in directors' and officers' liability insurance coverage.

Environmental

As discussed in note 29, 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. 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 approximating $1,000. At SMC, a provision has been recorded for the low-level radioactive slag pile (see note 29) which assumes that the Company will be able to remediate the pile using a long-term control license. In 2009, the governing party responsible for this site changed and the new governing party determined that this remediation is not satisfactory and is requesting the Company to remediate using a second alternative.

The second alternative is an offsite disposal alternative which could potentially cost up to $70,000. The Company is challenging this decision in both federal and state courts and does not believe that remediation using the second alternative is probable. The timing of the payments related to this contingent liability are uncertain due to the legal process that has ensued and is expected to take years to conclude.

Litigation

In addition to the environmental matters, which are discussed above and in note 29, 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.

Contingencies of associates

In accordance with applicable law, Timminco is required to file a Mine Closure Plan with the Ontario Ministry of Northern Development and Mines (the "Ministry") with respect to the Haley, Ontario facility together with appropriate financial assurance covering its obligations pursuant to the plan. Timminco is required to provide financial assurance of $1,389 by way of cash deposits over a period of 5 years or sooner, depending on the financial results of the Company. To date, $1,000 has been deposited with the Ministry and the Company expects to deposit the balance in equal installments over the next 2 years.

A lawsuit was filed against Timminco and its directors and officers on May 14, 2009. This lawsuit, which was brought on behalf of Timminco shareholders who acquired Timminco common shares between March 17, 2008 and November 11, 2008, alleges that certain misrepresentations were made about Timminco's solar grade silicon production process and claims damages that approximate $500 million. The matters raised in the lawsuit contain unproven allegations, and the plaintiffs will need to seek leave or permission of the court to bring the lawsuits under the Secondary Market Disclosure provisions of the Ontario Securities Act. The lawsuit is at an early stage of proceedings. There has been no provision made for these matters in Timminco's accounts as of December 31, 2009. AMG and Timminco each have insurance policies which will provide for reimbursement of costs and expenses incurred in connection with the lawsuit, including legal and professional fees, as well as damages awarded, if any, subject to certain policy limits and deductibles. Timminco intends to vigorously defend these allegations. However, no assurance can be given with respect to the ultimate outcome of the proceedings, and the amount of any damages awarded in such lawsuits could be substantial.

Timminco is also involved in legal proceedings with a former supplier alleging improper termination of a contract relating to a commitment to purchase certain feedstock materials for its solar grade silicon product line. Timminco is also in settlement negotiations with certain suppliers to resolve any potential claims arising from the termination of contracts relating to commitments to purchase certain equipment and services relating to its solar grade silicon purification facility. However, no assurance can be given with respect to the ultimate outcome of such proceedings or settlement negotiations.

39. Related parties

Transactions with key management personnel

Key management personnel compensation

As at December 31, 2009 and 2008, Dr. Schimmelbusch is the Chief Executive Officer for the Company, and in his position receives salary, benefits and perquisites from the Company.

As at December 31, 2008 Mr. Spector was the Deputy Chairman for the Company and received salaries, benefits and perquisites from the Company. Mr. Spector left the employ of the Company on September 30, 2009. He will receive termination payments beginning in 2010.

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf.

The compensation of the management board of the Company comprised:

For the year ended December 31, 2009	Salaries and Bonus	Option Compensation	Performance Share Units	Post-employment benefits including contributions to defined contribution plans	Other remuneration (a)	Total
Dr. Heinz Schimmelbusch	1,293	2,004	1,056	561	44	4,958
Arthur Spector	730	259	–	611	–	1,600
Eric Jackson	676	862	317	178	31	2,064
Dr. Reinhard Walter	699	880	317	43	23	1,962
William J. Levy	527	755	211	33	33	1,559
TOTAL	3,925	4,760	1,901	1,426	131	12,143

For the year ended December 31, 2008	Salaries and Bonus	Option Compensation	Post-employment benefits including contributions to defined contribution plans	Other remuneration (a)	Total
Dr. Heinz Schimmelbusch	2,236	2,040	1,270	91	5,637
Arthur Spector	1,840	1,794	1,400	–	5,034
Eric Jackson	1,133	892	159	40	2,224
Dr. Reinhard Walter	1,224	892	52	28	2,196
William J. Levy	888	883	30	30	1,831
TOTAL	7,321	6,501	2,911	189	16,922

(a) Dr. Schimmelbusch also received compensation in 2009 and 2008 from Graphit Kropfmühl in his capacity as Supervisory Board member in the amount of $50 and $35, respectively. Other compensation also includes car expenses and additional insurance paid for by the Company.

Each member of the management board has an employment contract with the Company which provides for severance in the event of termination without cause. The maximum severance payout is limited to two years base salary and two years of target annual bonus.

During the year ended December 31, 2009, the Deputy Chairman of the Company, Mr. Spector left the employ of AMG. As compensation, Mr. Spector's separation agreement requires the following payments:

- From the US subsidiary, payments totaling $1.4 million in the year ended December 31, 2010
- From the Dutch company, payments totaling €0.6 million starting in 2010 and ending in 2011
- Initiation of supplemental executive retirement plan from the US subsidiary in the amount of $0.5 million per annum beginning in November 2010

The compensation of the Supervisory Board of the Company comprised:

For the year ended December 31, 2009	Cash remuneration	Share-based remuneration	Total Compensation
Pedro Pablo Kuczynski	95	69	164
Jack Messman	90	47	137
General Wesley Clark	60	42	102
Norbert Quinkert	80	42	122
Guy deSelliers	80	42	122
Dr. Martin Hoyos	34	23	57
TOTAL	439	265	704

For the year ended December 31, 2008	Cash remuneration	Share-based remuneration	Total Compensation
Pedro Pablo Kuczynski	75	33	108
Jack Messman	63	27	90
General Wesley Clark	50	22	72
Dr. Andrei Bougrov (a)	25	–	25
Norbert Quinkert	63	22	85
Guy de Selliers	63	22	85
TOTAL	339	126	465

(a) Dr. Andrei Bougrov resigned from the Supervisory Board in June 2008 and effective May 13, 2009 has been replaced by Dr. Martin Hoyos.

During 2008, Timminco and Allied Resources Corporation, whose Chairman is also the Chief Executive Officer of the Company, shared the cost of one of the officers of Timminco. During 2008, Timminco contributed $405 to the cost of the remuneration of the officer of the Company.

Entities with significant influence over the Company

Safeguard International Fund owns approximately 26.6% of the voting shares of the Company. One current and one former member of the management board of the Company are also managing directors of Safeguard International Fund and receive compensation for their role as managing directors. The relatives of Directors hold only a de minimus portion of the voting shares.

A number of key management personnel, or their related parties, hold positions in other group entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel and their related parties on an arm's length basis.

Loans and Receivables

See note 25 for specific related party debt included in these consolidated financial statements.

On December 11, 2009, the Company loaned $5,000 to Timminco's wholly-owned subsidiary, Bécancour Silicon Inc. ("Bécancour"), in exchange for a convertible promissory note. The note bears interest at 12%, payable quarterly in arrears starting December 31, 2009 and will mature on January 3, 2011. The note may be settled, at the Company's option, in cash or common shares of Timminco at C$1.58 per share, subject to customary anti-dilution adjustments. Interest receivable related to the Convertible Note was $34 as of December 31, 2009.

Between January 2004 and May 2007, ALD entered into a series of loan agreements with Intellifast GmbH (formerly known as PFW Technologies GmbH), a subsidiary of Safeguard and PFW LLC, in an aggregate principal amount of $1,706. At December 31, 2009, approximately $2,212 (2008: $2,148) was outstanding under these loans including interest and an additional amount of approximately $783 (2008: $422) 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. During the year ended December 31, 2008, one loan from GfE Medical was transferred to Safeguard. This loan, in the amount of $698 was repaid by Safeguard in 2009, although an amount of $29 is still owed for interest as of December 31, 2009. $431 is still owed by GfE Medical as of December 31, 2009. As of December 31, 2008, $538 and $679 were owed to the Company by GfE Medical and Safeguard, respectively.

As at December 31, 2007, Timminco had a 47.1% share in Fundo Wheels, located in Hoyanger, Norway. On March 14, 2008, Timminco converted into shares the full principal amount of two loans provided during 2007 to fund working capital. After the conversion of this debt, the Company's ownership percentage of Fundo decreased from 47.1% to 45.3%. In September 2008, it became evident that there may not be sufficient capital within Fundo to secure its long-term viability. Accordingly, the investment in Fundo and all related notes receivable from Fundo were written down to nil, which was management's best estimate of their fair value.

Transactions with associates

The Company completed the following purchases of Timminco shares during 2009:

Date	Shares purchased	Share price	Total equity purchase
November 20, 2009	3.84 million	C$1.38	$5,041
April 30, 2009	7.43 million	C$2.02	12,313
February 3, 2009	3.94 million	C$3.55	11,519
TOTAL	15.21 million		$28,873

As of December 31, 2009, the Company owned 67,761,392 or 42.5% of the outstanding shares of Timminco.

During the second quarter 2009, one of the Company's subsidiaries purchased 5,000 metric tons of silicon metal finished goods inventory from Timminco for a purchase price of approximately $8.5 million. This inventory is being sold to a European silicon metal customer. Approximately $3.6 million of inventory remains to be sold to that customer as of December 31, 2009. During the fourth quarter of 2009, an additional purchase of $6.4 million was made for sale to a different European silicon metal customer. As of December 31, 2009, no inventory remained to be delivered to this customer. The contracts call for AMG's subsidiary to repay Timminco for certain costs, and as such the Company owes Timminco $139 related to these purchases. The Company recognized $538 in commission income from Timminco related to these sales.

On March 31, 2009, fixed assets were purchased from Timminco for $7,546. A portion of this was paid in cash and a portion was related to furnaces manufactured by another AMG subsidiary. This purchase was made concurrent with the signing of a Memorandum of Understanding and Joint Development Agreement between Timminco and one of the Company's Canadian subsidiaries, AMG Conversion Ltd. (AMGC). AMGC was established as a producer of solar grade ingots and bricks to be sold to the solar wafer market. AMGC utilizes the equipment purchased from Timminco to manufacture ingots and bricks both for Timminco's and its own use. Timminco's employees are used in the production process. Each party receives a tolling fee based on the cost of contributions to the process, plus an agreed upon fixed margin on such costs. During 2009, a net $1,169 was invoiced to Timminco with respect to these services. AMGC has a receivable of $442 due from Timminco as of December 31, 2009. AMGC and Timminco are considering the feasibility of a long-term arrangement on the basis that AMGC would purchase solar grade silicon from Timminco to further process into bricks and ingots for the solar wafer market. On September 15, 2009 and October 12, 2009, AMGC purchased inventory from Timminco in the amount of $5,927 for use in its crystallisation facility. Through December 31, 2009, the Company continued to operate as a toll manufacturer for Timminco.

Timminco purchased spare parts from one of the Company's subsidiaries during the year ended December 31, 2009. These sales amounted to $624. Additional silicon inventory transfers were made between Timminco and various subsidiaries of the Company. The net amount of these transfers was $111. These transfers were not booked as sales since the inventory has been or will be shipped back to the originating party at cost. Finally, the Company billed Timminco for government regulatory fees in Germany in the amount of $102.

In the year ended December 31, 2009, Dr. Schimmelbusch received cash compensation from Timminco for his role a Chief Executive Officer in the amount of $117 (2008: $189). Dr. Schimmelbusch and Mr. Spector also received options from Timminco. Compensation for Timminco options in 2009 for Dr. Schimmelbusch and Mr. Spector was $848 and $20, respectively (2008: $518 and $38, respectively). Finally, Dr. Schimmelbusch and Mr. Spector received directors' compensation in 2009 from Timminco in the form of deferred share units in the amount of $197 and $159, respectively.

During the first four months of 2009, the Company and Timminco shared the remuneration cost of John Fenger, who was appointed Chief Operating Officer of Timminco on April 20, 2009. AMG paid $17 of his compensation costs during 2009. There were several other small transactions between the Company and Timminco, mainly recharging Timminco for costs incurred on their behalf. A receivable of $11 has been recorded as of December 31, 2009 related to these transactions.

Other Transactions

The Company shares office space in the United States with Safeguard. In 2009 and 2008, an allocation of Safeguard's costs related to the office and the utilities was paid. In addition to the lease and utility expenses, certain amounts related to travel and entertainment and the salaries of certain employees were cross-charged to the Company by Safeguard. During the years ended December 31, 2009 and 2008, Metallurg was billed $330 and $920 by Safeguard for travel and entertainment of its Chief Executive Officer and its portion of costs related to the building. Amounts due to Safeguard at December 31, 2009 and 2008 were $18 and $316, respectively.

In October, 2009, the Company made a payment of $31 to Allied Carbon Credit for research performed on the emission reduction potential of a magnesium plant in Norway. Allied Carbon Credit is 80% owned by Allied Resource Corporation, whose Chairman is the Chief Executive Officer of the Company.

In December 2009, the Company made a payment of $191 to Safeguard International Management GmbH (SIM GmbH) for management services. The service agreement with SIM GmbH requires the Company to pay for the use of SIM GmbH's office and administrative services in its Frankfurt location. SIM GmbH is a wholly owned subsidiary of Safeguard International Fund whose managing director is also the Company's Chief Executive Officer.

In 2008, Timminco purchased inventory from Fundo as a means of providing cash flow to its associate. This inventory purchase required that Fundo maintain a separate account and repay Timminco all amounts received from the sale of the inventory purchased. The Company guaranteed the repayment to Timminco. Fundo did not maintain a separate account and therefore defaulted on the agreement. It did not repay Timminco and therefore, AMG had to pay Timminco $1,585 as compensation for its guarantee of the inventory purchase.

On December 18, 2008, a wholly owned subsidiary of the Company invested $10,432 (including $118 of acquisition costs) to acquire 50% of Silmag DA. Silmag DA is a joint venture with Norsk Hydro that was established to develop a unique process to produce silica and magnesium at a low cost from olivine, a raw material abundant in Norway. Of the $10,314 invested, $3,127 was allocated to purchase the technology and $7,187 was allocated to fund a pilot plant to further develop the process technology. The technology was purchased from a joint venture called COD Tecnologies AS. The joint venture was 50% owned by Allied Resources Corporation, whose Chairman is also the Chief Executive Officer of the Company. A fairness opinion was obtained in order to ensure that the transaction was completed at arm's length.

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

40. Subsequent events

Subsequent to December 31, 2009, the Company agreed to make a prepayment of approximately $4.6 million to Timminco. Timminco, in turn, will supply and deliver a certain volume of silicon metal to one of it's traditional long-term silicon metal customers on behalf of AMG. As material is delivered to the customer, AMG will receive the customer payments for that material.

In March 2010, AMG reached agreement to amend its term loan and revolving credit facility. AMG has increased its senior net debt leverage covenant from 2.00x trailing twelve months EBITDA, as defined in the Credit Facility, to 3.00x trailing twelve months EBITDA. The total leverage covenant remains unchanged at 3.75x trailing twelve months EBITDA. This amendment also changes the borrowing margins. Interest on the Credit Facility is now based on current LIBOR (or in the case of any loans denominated in Euros, EURIBOR) plus a margin of 1.50% to 4.00%, depending on leverage.

AMG Advanced Metallurgical Group, N.V.
Parent Company Statement of Financial Position

As at December 31	Note	2009	2008
In thousands of US Dollars			
Assets			
Property, plant and equipment, net	2	735	616
Intangible assets, net	3	294	–
Investments in subsidiaries	4	147,417	181,854
Investment in associates	4	19,460	–
Loans due from subsidiaries	4	117,638	58,291
Investment in equity securities	5	970	1,000
Deposit	6	66	66
Note receivable from associate	7	3,094	–
Derivative financial instrument	14	1,718	–
Total non-current assets		291,392	241,827
Trade and related party receivables	7	16,988	14,241
Loans due from subsidiaries	4	93,397	127,351
Derivative financial instruments	14	527	5,644
Prepayments	8	495	371
Cash and cash equivalents	9	4,243	3,989
Total current assets		115,650	151,596
Total assets		407,042	393,423
Equity			
Issued capital	10	725	724
Share premium	10	379,518	379,297
Foreign currency translation reserve	10	(5,659)	(10,115)
Other reserves	10	36,943	7,900
Retained earnings (deficit)	10	(198,897)	(123,110)
Total equity attributable to shareholders of the Company		212,630	254,696
Liabilities			
Provision for negative participation	4	143,794	111,984
Long-term debt	11	39,000	17,000
Total non-current liabilities		182,794	128,984
Taxes and premium		71	134
Trade and other payables	12	6,534	5,031
Amounts due to subsidiaries	13	4,707	2,140
Derivative financial instruments	14	306	2,438
Current taxes payable		–	–
Total current liabilities		11,618	9,743
Total liabilities		194,412	138,727
Total equity and liabilities		407,042	393,423

The notes are an integral part of these financial statements.

AMG Advanced Metallurgical Group, N.V.
Parent Company Income statement

For the year ended December 31	2009	2008
In thousands of US Dollars		
(Loss) income from subsidiaries, after taxes	(29,715)	36,695
Other income and expenses	(45,927)	(22,242)
Net (loss) income	(75,642)	14,453

The notes are an integral part of these financial statements.

1. Summary of significant accounting policies

The parent company financial statements have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code, as generally accepted in the Netherlands. The accounting policies used in the financial statements are similar to the accounting policies used in the Consolidated Financial Statements, with the exception of financial fixed assets. Subsidiaries are valued at their net equity value, including allocated goodwill.

As of December 31, 2009, the statement of financial position has been converted to USD from Euros using a conversion rate of EUR:USD of 1.4333. (2008: 1.3919)

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

Name	Country of incorporation	Percentage held (directly or indirectly) by Company December 31, 2009	Percentage held (directly or indirectly) by Company December 31, 2008
ABS Apparate-und Behälterbau Staßfurt GmbH	Germany	49	24.96
ALD Holcroft Vacuum Technologies Co.	United States	50	50
ALD Lindgren Inc.	Canada	–	100
ALD Industrie-und Montagepark Staaken GmbH	Germany	51	51
ALD Own & Operate GmbH	Germany	100	100
ALD Technologies Polska S.z.o.o	Poland	100	100
ALD Thermal Treatment, Inc.	United States	100	100
ALD Thermo Technologies Far East Co., Ltd.	Japan	100	100
ALD Tratamientos Termicos S.A.	Mexico	100	100
ALD Vacuum Technologies GmbH	Germany	100	100
ALD Vacuum Technologies Inc.	United States	100	100
ALD Vacuum Technologies Ltd.	United Kingdom	100	100
ALD Vacuum Technologies Singapore PTE Ltd.	Singapore	100	–
ALD Vakuumnyje Technologii OOO	Russia	100	100
AMG Advanced Metallurgical Group Investment BV	Netherlands	100	100
AMG Brazilian Holding BV	Netherlands	100	–
AMG Coating Technologies GmbH	Germany	100	100
AMG Conversion Ltd	Canada	100	–
AMG DLC Coating GmbH	Germany	50	50
AMG Euro Holdings CV	Netherlands	100	–
AMG Invest GmbH	Germany	100	100
Applied Magnesium International Limited***	British Virgin Islands	42.5	–
Aurora Partnership	United States	–	50.34
Bécancour Silicon Inc.	Canada	42.5	50.34
Benda-Lutz-Alpoco Sp.z o.o.	Poland	51	51
Bogala Graphite Lanka Plc.*	Sri Lanka	79.52	79.52
Bostlan S.A.	Spain	25	25
Branwell Graphite Ltd.	United Kingdom	79.52	79.52
Companhia Industrial Fluminense Mineracao S.A.	Brazil	100	–
Korin Grundstücksgesellschaft GmbH & Co. Projekt 30 KG	Germany	94.9	94.9
Fundo Holdings AS	Norway	42.5	50.34
Fundo Wheels A.S.**	Norway	–	50.34
Edelgraphit GmbH	Germany	79.52	79.52
EsteR-Technologie GmbH	Germany	50.2	50.2
EsteR-Separation GmbH	Germany	60	60
Fair Deal Trading (Pvt.) Ltd.*	Sri Lanka	79.52	79.52
FNE Forschungsinstitut für Nichteisen-Metalle GmbH	Germany	100	100
Furnaces Nuclear Applications Grenoble S.A.	France	100	100
GfE Fremat GmbH	Germany	100	100

Name	Country of incorporation	Percentage held (directly or indirectly) by Company December 31, 2009	Percentage held (directly or indirectly) by Company December 31, 2008
GfE Gesellschaft für Elektrometallurgie mbH	Germany	100	100
GfE Materials Technology Inc.	United States	100	100
GfE Metalle und Materialien GmbH	Germany	100	100
GfE Unterstützungskasse GmbH	Germany	100	100
GK Asia Ltd. (formerly Mutual Sources Ltd)	China	79.52	79.52
GK Graphit Kropfmühl GmbH	Germany	79.52	79.52
Graphit Kropfmühl AG	Germany	79.52	79.52
Graphite Týn spol. s r.o.	Czech Republic	79.52	79.52
Heidenreich and Harbeck AG	Germany	–	19.01
Industrial Adhesives Limited	Canada	–	50.34
London & Scandinavian Metallurgical Co Limited	United Kingdom	100	100
LSM Brasil S.A. (formerly Companhia Industrial Fluminense)	Brazil	100	100
LSM Holdings BV	Netherlands	100	–
LSM (Jiaxing) Co Ltd	China	100	100
Metallurg Delaware Holding Company	United States	100	100
Metallurg Europe Limited	United Kingdom	100	100
Metallurg European Holdings LLC	United States	100	100
Metallurg Holdings Corporation	United States	100	100
Metallurg Holdings Inc.	United States	100	100
Metallurg, Inc.	United States	100	100
Metallurg International Holdings LLC	United States	100	100
Metallurg Mexico S.A. de C.V.	Mexico	100	100
Metallurg Servicios S.A. de R.L. de C.V.	Mexico	100	100
Metallurg Vanadium Corporation	United States	100	100
New Jersey Renewables Corporation	United States	100	–
NorWheels AS	Norway	42.5	50.34
Produits Chimiques de Lucette S.A	France	100	100
Qingdao Kropfmuehl Graphite Co. Ltd.	China	79.52	79.52
Qingdao Kropfmuehl Trading Co. Ltd.	China	79.52	79.52
RW silicium GmbH	Germany	79.52	79.52
Share Investments (Pvt.) Ltd.	Sri Lanka	79.52	79.52
Shieldalloy Metallurgical Corporation	United States	100	100
Silmag DA	Norway	50	50
Société Industrielle et Chimique de l'Aisne	France	100	100
Sudamin France S.A.S	France	100	100
Sudamin Holdings SPRL	Belgium	100	100
Sudamin IT S.A.	France	100	100
Sudamin SPRL	Belgium	100	100
Technologie-und Gründer-zentrum GmbH	Germany	2.5	2.5
The Aluminium Powder Company Limited	United Kingdom	100	100
Timminco Adhesives Corporation	United States	42.5	50.34
Timminco Colorado Corporation	United States	–	50.34
Timminco Corporation	United States	42.5	50.34
Timminco de Mexico S.A. de CV	Mexico	–	50.34
Timminco Holdings Corporation	United States	42.5	50.34
Timminco Limited	Canada	42.5	50.34
Timminco Properties Inc.	United States	42.5	50.34
Timminco Pty Limited	Australia	–	50.34

Name	Country of incorporation	Percentage held (directly or indirectly) by Company December 31, 2009	Percentage held (directly or indirectly) by Company December 31, 2008
Timminco Silicon Holdings Inc	Canada	42.5	50.34
Timminco Technologies Corporation	United States	42.5	50.34
Timminco BV	Netherland	42.5	50.34
Timminco S.A.	Switzerland	42.5	50.34
VACUHEAT GmbH	Germany	100	100
VACUHEAT Verwaltungs GmbH	Germany	100	100

* Bogala Graphite and Fair Deal Trading are 90.4% owned by Graphit Kropfmühl, of which the Company owns 79.52%. Therefore, the Company indirectly holds 71.9% of these companies

** Fundo Wheels AS formally declared bankruptcy on January 12, 2009, the investment in Fundo Wheels was fully impaired as of December 31, 2008 and the carrying amount of the investment was reduced to zero.

*** Applied Magnesium International Limited is 19.5% owned by Timminco Limited, of which the Company owns 42.5%. Therefore, the Company indirectly holds 8.9% of this company.

One company is not listed above and is not consolidated using the equity method as no decisive influence can be exerted on the business and financial policy of the company due to political reasons.

2. Property, plant and equipment

Cost	Leasehold Improvements	Machinery and Equipment	Office furniture	Total
Balance at January 1, 2008	–	–	–	–
Additions	599	91	–	690
Balance at December 31, 2008	599	91	–	690
Balance January 1, 2009	599	91	–	690
Additions	–	–	251	251
Balance at December 31, 2009	599	91	251	941
Depreciation				
Balance at January 1, 2008	–	–	–	–
Additions	(54)	(20)	–	(74)
Balance at December 31, 2008	(54)	(20)	–	(74)
Balance at January 1, 2009	(54)	(20)	–	(74)
Depreciation	(116)	–	(16)	(132)
Balance at December 31, 2009	(170)	(20)	(16)	(206)
Carrying amounts				
At January 1, 2008	–	–	–	–
At December 31, 2008	545	71	–	616
At January 1, 2009	545	71	–	616
At December 31, 2009	429	71	235	735

3. Intangible assets

Cost	
Balance January 1, 2009	–
Additions	406
Balance at December 31, 2009	406
Depreciation	
Balance at January 1, 2009	–
Depreciation	(112)
Balance at December 31, 2009	(112)
Carrying amounts	
At January 1, 2009	–
At December 31, 2009	294

4. Financial Fixed Assets

Investments in Subsidiaries

The movement in subsidiaries was as follows:

	Investment in subsidiaries	Provision for negative participation	Total
Balance at January 1, 2008	156,425	(119,583)	36,842
Investment in new companies	11,316	–	11,316
Adjustment to subsidiary convertible debt	(84)	–	(84)
Subsidiary options	10,073	–	10,073
Income for the period	36,695	–	36,695
Deferred losses on derivatives	(12,958)	–	(12,958)
Other	(230)	–	(230)
Currency translation adjustment	(11,784)	–	(11,784)
Balance at December 31, 2008	189,453	–	69,870
Reclassification for provision for negative participation:			
Provision for negative participation	(7,599)	7,599	–
Balance at December 31, 2008	181,854	(111,984)	69,870
Balance at January 1, 2009	181,854	(111,984)	69,870
Investment in companies	35,444	–	35,444
Recapitalization of companies	(57,912)	–	(57,912)
Subsidiary options	10,020	–	10,020
Loss for the period	(29,715)	–	(29,715)
Deferred gains on derivatives	13,455	–	13,455
Other	(323)	–	(323)
Currency translation adjustment	5,660	–	5,660
Reclass to associate	(42,876)	–	(42,876)
Balance at December 31, 2009	115,607	–	3,623
Reclassification for provision for negative participation:			
Provision for negative participation	31,810	(31,810)	–
Balance at December 31, 2009	147,417	(143,794)	3,623

Investment in associates

On September 28, 2009, the Company reduced its ownership percentage of Timminco from 50.8% to 47.9%. This loss of control resulted in a loss on deemed disposal of $1,131. Timminco is therefore, no longer consolidated and is recorded as an associate in the consolidated statement of financial position. During its period of equity ownership, the Company's share of Timminco's loss was $27,498.

Loans due from subsidiaries

	Non-current loans due from subsidiaries	Current loans due from subsidiaries	Total
Balance at January 1, 2008	102,221	104,501	206,722
Loans	85,272	8,773	94,045
Repayments	(76,362)	(19,500)	(95,862)
Offset against loans due to subsidiaries	(12,126)	–	(12,126)
Reclassification from non-current to current	(34,191)	34,191	–
Currency translation adjustment	(6,523)	(614)	(7,137)
Balance at December 31, 2008	58,291	127,351	185,642
Balance at January 1, 2009	58,291	127,351	185,642
Loans	57,912	–	57,912
Repayments	–	(30,435)	(30,435)
Offset against loans due to subsidiaries	–	(3,698)	(3,698)
Currency translation adjustment	1,435	179	1,614
Balance at December 31, 2009	117,638	93,397	211,035

The loan offsets in 2009 and 2008 were formally documented and recorded between the Company and one of its German subsidiaries as of March 31, 2009 and July 1, 2008, respectively. Amounts are loaned to subsidiaries primarily to finance operations and working capital.

The non-current loans are due from a German subsidiary. One loan was initiated in 2009, has a term of nine years and a fixed interest rate of 8%. The second loan was initiated in 2008, has a term of ten years and a floating interest rate based on EURIBOR. At year-end December 31, 2009, this rate was 5.33%. Current loans are due from several subsidiaries in Europe and the United States. Loans in the amount of $93,197 (2008: $126,151) are due in 2010 and loans with a balance of $200 (2008: $1,200) are due upon request. All current loans have an interest rate in the range of 4.28–7.00% at December 31, 2009 (7.00–7.23% at December 31, 2008).

5. Investment in equity instruments

The Company has a strategic investment in a growth-based company in Iceland. This equity investment cannot be reliably measured at fair value and is therefore accounted for using a cost basis. As December 31, 2009, this investment amounted to $970 (2008: $1,000).

6. Deposit

The deposit account includes a security deposit for the Amsterdam office location of the Company.

7. Receivables from associates and related parties

On December 11, 2009, the Company loaned $5,000 to Timminco's wholly-owned subsidiary, Bécancour Silicon Inc. ("Bécancour"), in exchange for a convertible senior subordinated promissory note (the "Convertible Note"). The Convertible Note bears interest at 12%, payable quarterly in arrears starting December 31, 2009 and matures on January 3, 2011. The full principal amount is convertible into common shares of Timminco, at AMG's option at any time, at a conversion price of C$1.58 per share, subject to customary anti-dilution adjustments. This was accounted for as a hybrid instrument with the note and the equity option being valued separately. See note 14 for valuation of the option. The value of the note was $3,094 as of December 31, 2009. Interest receivable related to the Convertible Note was $34 as of December 31, 2009.

Trade and related party receivables of $16,988 (2008: $14,241) primarily represents interest owed to the Company on loans due from subsidiaries ($10,972). Also included in this balance is a note receivable from a customer, which is callable at the Company's option, which bears interest at 5%. The amount recorded for this note is $5,362. The remainder of the balance represents balances owed by subsidiaries that represent expenses paid for by AMG and billed back to the subsidiaries.

8. Prepayments

At December 31, 2009 and 2008, prepayments primarily represent prepaid insurance and prepaid rent for the Company.

9. Cash and cash equivalents

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

10. Capital and reserves

	Shareholders Equity					
	Issued capital	Share premium	Foreign currency translation reserve	Other reserves	Retained deficit	Total
Balance at January 1, 2008	722	392,304	150	(10,073)	(137,439)	245,664
Foreign currency translation	–	–	(10,265)	(249)	–	(10,514)
Loss on cash flow hedges, net of tax	–	–	–	(12,958)	–	(12,958)
Net income recognized directly in equity	–	–	(10,265)	(13,207)	–	(23,472)
Profit for the year	–	–	–	–	14,453	14,453
Total recognized income and expense for the year	–	–	(10,265)	(13,207)	14,453	(9,019)
Issuance of shares from exercise of share-based payments	2	3,006	–	(1,151)	–	1,857
Ownership change	–	(15,823)	–	14,300	–	(1,523)
Valuation of convertible debt	–	(84)	–	–	–	(84)
Equity-settled share-based payment expense at subsidiary	–	–	–	1,311	–	1,311
Equity-settled share based payment expense	–	–	–	16,720	–	16,720
Other	–	(106)	–	–	(124)	(230)
Balance at December 31, 2008	724	379,297	(10,115)	7,900	(123,110)	254,696
Balance at January 1, 2009	724	379,297	(10,115)	7,900	(123,110)	254,696
Foreign currency translation	–	–	4,456	–	–	4,456
Gain on cash flow hedges, net of tax	–	–	–	13,455	–	13,455
Net income recognized directly in equity	–	–	4,456	13,455	–	17,911
Profit for the year	–	–	–	–	(75,642)	(75,642)
Total recognized income and expense for the year	–	–	4,456	13,455	(75,642)	(57,731)
Issuance of shares to Supervisory Board	1	400	–	–	–	401
Equity-settled share-based payment expense at subsidiary	–	–	–	1,559	–	1,559
Equity-settled share based payment expense	–	–	–	14,029	–	14,029
Other	–	(179)	–	–	(145)	(324)
Balance at December 31, 2009	725	379,518	(5,659)	36,943	(198,897)	212,630

Share Capital

At December 31, 2009, the Company's authorized share capital was comprised of 100,000,000 ordinary shares (2008: 100,000,000) with a nominal share value of €0.02 (2008: €0.02). At December 31, 2009, the issued and outstanding share capital was comprised of 26,899,548 ordinary shares (2008: 26,855,586), with a nominal value of €0.02 (2008: €0.02) which were fully paid.

A rollforward of the total shares outstanding is noted below:

Balance at January 1, 2008	26,803,086
Exercise of share-based payments	52,500
Balance at December 31, 2008	26,855,586
Balance at January 1, 2009	26,855,586
Shares issued to Supervisory Board directors	43,962
Balance at December 31, 2009	26,899,548

Supervisory Board Remuneration

During the year ended December 31, 2009, 43,962 shares were issued as compensation to its Supervisory Board members as compensation for services provided in 2008 and 2009. These shares were awarded as part of the remuneration policy approved by the Annual General Meeting.

Share-based payments

During the year ended December 31, 2008, 52,500 share-based payments were exercised resulting in 52,500 shares being issued. No additional shares were issued during the year ended December 31, 2008.

In anticipation of the Company's Annual General Meeting's adoption of the annual accounts, it is proposed that the net loss for 2009 of $75,642 (2008 net income: $14,453) be allocated to the retained earnings. Other reserves and the foreign currency translation reserve are not distributable. There are no expected tax consequences on retained earnings as no distributions are anticipated.

11. Long term debt

The Company and its subsidiaries are parties to a long term debt agreement that is comprised of two facilities, a $100,000 term loan facility (the "Term Loan") and a $175,000 multicurrency revolving credit facility agreement (the "Revolving Credit Facility"). The Term Loan and the Revolving Credit Facility mature on August 30, 2012 (together the "Credit Facility"). The Credit Facility is secured by substantially all of the assets of the material subsidiaries, excluding Timminco and GK, and a 100% pledge on all of the Timminco and GK shares which are owned by the Company.

During the year ended December 31, 2009, the Company borrowed in order to fund working capital. During the year-ended December 31, 2008, the Company borrowed under the Credit facility in order to acquire the shares of Graphit Kropfmühl. The balance of the borrowings as at December 31, 2009 was $39,000. (2008:$17,000).

Interest on the borrowings is based on current LIBOR plus a 1.50 percent margin.

The Credit Facility is subject to several affirmative and negative covenants including, but not limited to, the following:

- EBITDA to Net Finance Charges: Not to be less than 3.00: 1
- Net Debt to EBITDA: Not to exceed 3.75: 1
- Senior Net Debt to EBITDA: Not to exceed 2.00:1

EBITDA, Net Finance Charges, Net Debt and Senior Net Debt are defined in the Credit Facility agreement.

Mandatory prepayment of the Credit Facility is required upon the occurrence of (i) a change of control or (ii) the sale of all or substantially all of the business and/or assets of the Company whether in a single transaction or a series of related transactions.

12. 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 16.

13. Amounts due to subsidiaries

Certain payroll expenses, travel and entertainment and other expenses are paid directly by a subsidiary and billed to the Company at cost. As of December 31, 2009 and 2008, these amounted to $4,707 and $2,140, respectively.

14. Derivative financial instruments

Foreign currency forward contracts

At any point in time, the Company uses foreign exchange forward contracts to hedge intergroup loans that will be repaid in different functional currencies. These contracts are negotiated to match the expected terms of the commitments and generally mature within one year. When necessary, these contracts are rolled over at maturity. The Company's foreign exchange forward contracts, although part of the risk management strategy are treated as economic hedges. The fair value of these contracts are recorded in the statement of financial position. As of December 31, 2009, the company had a derivative financial instrument asset of $527 and a derivative financial liability of $306. As of December 31, 2008, the company had a derivative financial instrument asset of $5,644 and a derivative financial liability of $2,438.

Embedded derivative

As part of its convertible note receivable from Bécancour Silicon, AMG concluded that the conversion feature was an embedded derivative. This derivative had a fair value of $1,718 as at December 31, 2009. Upon execution of the note agreement, the conversion feature had a fair value of $1,906 which resulted in a financial loss of $188.

15. Commitments and contingencies

The Company has entered into a lease for office space in Amsterdam. The lease term is through March 31, 2013.

Future minimum lease payments under this lease as at December 31 are payable as follows:

	2009	2008
Less than one year	201	195
Between one and five years	452	634
More than five years	–	–
	653	829

16. Related parties

Safeguard International Fund, owns approximately 26.6% of the voting shares of the Company. One current and one former member of the management board of the Company are also managing directors of Safeguard International Fund and have received compensation for their roles as managing directors. The relatives of Directors hold only a de minimus portion of the voting shares.

Other Transactions

During 2007, the Company incurred legal and accounting fees in association with the initial public offering. Safeguard International offered a portion of their own shares for sale in the initial public offering and therefore a proportionate amount of the costs approximating $4,526 were billed to Safeguard International. Of this amount, $142 remains outstanding at December 31, 2009 and 2008, respectively.

17. Employees

At December 31, 2009 the Company had 9 employees (2008: 13).

Audit Fees

Ernst and Young Accountants LLP has served as the Company's independent auditors for each of the two years in the periods ended December 31, 2009 and December 31, 2008. The following table sets forth the total fees in accordance with Part 9 of Book 2, article 382a of the Netherlands Civil Code.

	2009	2008
Audit fees	467	486
Audit related fees	72	112
Other	183	424
	722	1,022

19. Other information

Article 25 of the Articles of Association

25. Adoption of Annual Accounts

25.1 The annual accounts shall be adopted by the general meeting.

25.2 Without prejudice to the provisions of article 23.2, the company shall ensure that the annual accounts, the annual report and the additional information that should be made generally available together with the annual accounts pursuant to or in accordance with the law, are made generally available from the day of the convocation of the general meeting at which they are to be dealt with.

25.3 The annual accounts cannot be adopted if the general meeting has not been able to take notice of the auditor's report, unless a valid ground for the absence of the auditor's report is given under the other additional information referred to in article 25.2.

Amsterdam, March 31, 2010

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 2009 and that the 2009 net losses 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 2009 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 statement of financial position as at December 31, 2009, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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, 2009, 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, 2009, 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, 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Den Bosch, the Netherlands, March 31, 2010

Ernst & Young Accountants LLP

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

Shareholder Information

Supervisory Board

Pedro Pablo Kuczynski, Chairman
Remuneration Committee

Wesley Clark
Selection and Appointment Committee

Martin Hoyos

Jack Messman
Audit Committee
Remuneration Committee (Chairman)

Norbert Quinkert
Selection and Appointment Committee (Chairman)

Guy de Selliers
Audit Committee (Chairman)

Management Board

Heinz Schimmelbusch
Chairman and Chief Executive Officer

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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AMG Advanced Metallurgical Group N.V.

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