AMG Advanced Metallurgical Group N.V.
Interim Financial Statements
(unaudited)
June 30, 2011

Semi-Annual Financial Report

This report contains the semi-annual financial report of AMG Advanced Metallurgical Group N.V. ("AMG" or "the Company"), a Company which was incorporated in the Netherlands as a public limited liability company on November 21, 2006. The address of the Company's registered office is WTC Amsterdam, Toren C, Strawinskylaan 1343, 1077 XX Amsterdam.

The semi-annual report for the six months ended June 30, 2011 consists of the responsibility statement by the Company's Management Board, the semi-annual management report and the condensed consolidated semi-annual financial statements. The information in this semi-annual financial report is unaudited.

The Management Board of the Company hereby declares that to the best of their knowledge, the semi-annual financial statements, which have been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the entities included in the consolidation taken as a whole. The half-year management board report gives a true and fair view of the important events of the past six-month period and their impact on the half-year financial statements, as well as the principal risks and uncertainties for the six-month period to come, and the most important related party transactions.

Heinz C. Schimmelbusch
Chief Executive Officer

William J. Levy
Chief Financial Officer

Management Report

AMG is comprised of three segments which manufacture a variety of products and serve different industries: Advanced Materials, Engineering Systems and Graphit Kropfmühl ("GK"). The Advanced Materials 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 Energy, Aerospace, Infrastructure, Specialty Metals and Chemicals end markets. The Engineering Systems 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. Graphit Kropfmühl manufactures silicon metal which is used in the Energy and Specialty Metals and Chemicals end markets. It also specializes in the extraction, processing and refining of natural crystalline graphite for a wide range of energy saving industrial applications.

Management's objectives consistently revolve around delivering positive operational results using an efficient asset base as well as effectively generating cash in order to be able to support research and development and vertical integration strategies. These objectives are measured by the Company using EBITDA and return on capital employed. EBITDA, adjusted for non-recurring items, is a measure used by management as a proxy for operating profit. Return on capital employed takes the profitability of the Company and measures it against the asset base. Long-term incentive plans require a minimum return on capital employed for vesting purposes.

AMG had a strong first half in 2011. Positive momentum in Advanced Materials and Graphit Kropfmühl has been the primary contributor to the growth with metals demand and pricing driving the improvement. The industries which have been exhibiting increased demand include aerospace and automotive. Engineering Systems has started to rebound from the economic slowdown but continues to experience several barriers to growth, including lower global demand for capital goods and increased competition from China.

Demand improved for a majority of the Advanced Materials' specialty metals during the first half of 2011, with particular improvement in aluminum, ferrovanadium and coatings for the aerospace and infrastructure industries. Prices for chrome metal, ferronickelmolybdenum and tantalum which are used in aerospace, infrastructure and electronics, respectively increased substantially. Antimony products were also positively impacted by increasing end market prices during the six months ended June 30, despite slightly declining volumes. Acquisitions were completed within the Advanced Materials segment in the first half of 2011, contributing $36 million to revenues. Please refer to note 4 of the interim financials for further details regarding these transactions.

The Engineering Systems division remains impacted by the global economic slowdown as customers continued to defer investment decisions. Order-backlog was $201 million on June 30, 2011, up 10% from $183 million on December 31, 2010, with the largest portions of backlog related to nuclear and heat treatment systems. Order intake for the solar and casting industries has been slower than expected while encouraging signs were seen in aerospace and energy end markets, with heat treatment and nuclear furnace orders increasing substantially. Both revenue and gross margin have increased in the six months ended June 30, 2011 due to economies of scale and product mix.

Graphit Kropfmühl has seen an impressive rebound in the first half of 2011. Revenues have improved significantly over 2010 as both silicon metal and graphite have seen improvements in pricing and demand. Silicon metal pricing improved with the renegotiation of sales contracts while volume remains strong due to demand from the energy sector. Natural graphite demand is higher and pricing reflects both the higher demand as well as the export limits on graphite that were established in China. Increase in demand is due to rebounding demand from the infrastructure sector.

The Company maintains adequate liquidity as it is experiencing growth in order to keep up with demand. As of June 30, 2010, liquidity was $106 million, comprised of $61 million in cash and $45 million in revolver capacity on the Company's credit facility. This credit facility was negotiated in 2011, replacing the previous credit facility which was initiated in 2007, resulting in an increase in capacity and an extension of the term. The new credit facility does not expire until 2016. AMG monitors its cash and liquidity positions regularly in order to ensure that liquidity exists to maintain the operations and the current capital expenditures program. Working capital in dollar terms has grown substantially since December 31, 2010. Management views working capital in terms of days of sales as this is a more appropriate measure given the price volatility of many of our products. The days of working capital have remained relatively consistent with 2010 having increased by only one day from 69 days of working capital at December 31, 2010 to 70 days at June 30, 2011. Prior to making any investing decisions, the effects on liquidity are analyzed both in terms of cash availability as well as debt covenant compliance. During the six months ended June 30, 2011, capital expenditures were $19.9 million and $26.8 million was utilized to acquire two new businesses, KB Alloys and MG India.

Risks and Uncertainties

In our Annual Report 2010, we have extensively described certain risk categories and risk factors which could have a material adverse effect on our financial position and results. These risks include customer, metal price volatility, supply, financing, entrepreneurial, currency, legal and regulatory and information technology. The Company believes that the risks identified for the second half of 2011 are in line with the risks that AMG presented in its Annual Report 2010. Furthermore, for the remainder of 2011, we see in particular the following principal risks and uncertainties.

Despite the positive business developments in the first half of 2011, there remains global economic uncertainty which may have a continuing effect on operations. The uncertainty could manifest itself in the form of lower order intake in our Engineering Systems Division or lower demand and pricing in the Advanced Materials Division. Any of these outcomes could produce an adverse effect on the Company's profitability.

Supply risk remains a risk that the Company is actively managing in 2011. As demand has seen improvement and China has implemented export controls, certain raw materials have become more difficult and more expensive to source. As raw materials become more limited, this could lead to higher per unit costs which could negatively impact results if those costs cannot be passed on to customers. The Company continues to manage this risk by evaluating vertical integration opportunities.

Legal and regulatory risk is being addressed in 2011 with respect to environmental compliance. No new environmental issues have been identified in 2011.

Additional risks currently not known to us, or currently believed not to be material, could later turn out to have a material impact on our business, objectives, revenues, income, assets, liquidity or capital resources.

Operational Outlook

The Advanced Materials division continues to experience strong revenues, albeit at levels slightly below the second quarter 2011, for many of its products including antimony trioxide, tantalum and chromium metal. Demand and pricing for aerospace alloys continues to be strong. As AMG enters the seasonally slow period in its business due to planned summer plant shutdowns of customers' and certain AMG operations, the focus remains on increased vertical integration through ramping up the tantalum and antimony mining operations. In the Advanced Materials conversion businesses, AMG is addressing the impact of higher raw material prices as lower cost inventory stocks are depleted. Order intake in Engineering Systems is stable but continues to be adversely impacted by the current economic environment, with solar particularly affected. Demand and pricing for Graphit Kropfmühl's natural graphite and silicon metal products should remain strong for the balance of 2011. Management will focus on reducing working capital and lowering net debt through cash from operations in the second half of 2011. AMG expects to generate in excess of 25% EBITDA growth in 2011.

AMG Advanced Metallurgical Group N.V.
Condensed interim consolidated income statement

For the six months ended June 30

In thousands of US Dollars		2011	2010
		Unaudited	Unaudited
Continuing operations			
Revenue		686,317	479,338
Cost of sales		557,544	392,264
Gross profit		**128,773**	**87,074**
Selling, general and administrative expenses		87,702	60,487
Restructuring expense	15	2,459	7
Environmental expense	15	246	506
Other income, net		(1,827)	(427)
Operating profit		**40,193**	**26,501**
Loss on extinguishment of debt	12	3,902	-
Finance expense		7,018	10,921
Finance income		(2,658)	(1,629)
Foreign exchange loss (gain)		1,285	(3,756)
Net finance costs		**9,547**	**5,536**
Share of loss of associates		6,071	9,420
Profit before income tax		**24,575**	**11,545**
Income tax expense	5	12,792	10,993
Profit for the period		**11,783**	**552**
Attributable to:			
Shareholders of the Company		10,323	1,099
Non-controlling interests		1,460	(547)
Profit for the year		**11,783**	**552**
Earnings per share			
Basic earnings per share		0.37	0.04
Diluted earnings per share		0.37	0.04

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

AMG Advanced Metallurgical Group N.V.

Condensed interim consolidated statement of comprehensive income

For the six months ended June 30

In thousands of US Dollars		2011	2010
		Unaudited	Unaudited
Profit for the period		**11,783**	**552**
Exchange differences on translation of foreign operations		5,196	(9,500)
Net gain (loss) on cash flow hedges	6	1,108	(3,830)
Income tax		(480)	188
		628	**(3,642)**
Other comprehensive income (loss) for the period		**17,607**	**(12,590)**
Attributable to:			
Shareholders of the Company		15,592	(9,864)
Non-controlling interests		2,015	(2,726)

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

AMG Advanced Metallurgical Group N.V.

Condensed interim consolidated statement of financial position
In thousands of US Dollars

	Note	June 30, 2011 Unaudited	December 31, 2010 Audited
Assets			
Property, plant and equipment	7	262,033	228,612
Intangible assets	8	33,556	27,002
Investments in associates and joint ventures		20,799	25,186
Derivative financial instruments	16	5,139	5,199
Deferred tax assets		26,552	22,107
Restricted cash		11,261	12,528
Notes receivable		1,144	322
Other assets		15,827	15,372
Total non-current assets		**376,311**	**336,328**
Inventories	9	258,198	207,204
Trade and other receivables		216,929	175,421
Derivative financial instruments	16	6,148	5,731
Other assets		46,998	41,080
Cash and cash equivalents	10	61,136	89,311
Total current assets		**589,409**	**518,747**
Total assets		**965,720**	**855,075**
Equity			
Issued capital		741	741
Share premium		381,636	381,636
Other reserves		44,291	36,158
Retained earnings (deficit)		(186,205)	(196,481)
Equity attributable to shareholders of the Company		**240,463**	**222,054**
Non-controlling interests		13,888	11,911
Total equity	11	**254,351**	**233,965**
Liabilities			
Loans and borrowings	12	219,761	187,813
Employee benefits	13	98,238	88,372
Provisions	15	21,021	20,607
Government grants		602	642
Other liabilities		9,733	5,517
Derivative financial instruments	16	548	698
Deferred tax liabilities	5	33,630	25,436
Total non-current liabilities		**383,533**	**329,085**
Loans and borrowings	12	4,981	4,254
Short term bank debt	12	53,731	45,022
Government grants		190	175
Other liabilities		56,996	43,287
Trade and other payables		117,472	102,253
Derivative financial instruments	16	5,189	1,754
Advance payments		45,715	49,597
Current taxes payable		19,649	24,979
Provisions	15	23,913	20,704
Total current liabilities		**327,836**	**292,025**
Total liabilities		**711,369**	**621,110**
Total equity and liabilities		**965,720**	**855,075**

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

AMG Advanced Metallurgical Group N.V.
Condensed interim consolidated statement of changes in equity

	Equity attributable to shareholders of the parent						
	Issued capital	**Share premium**	**Other reserves (Note 11)**	**Retained earnings (deficit)**	**Total**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2011	**741**	**381,636**	**36,158**	**(196,481)**	**222,054**	**11,911**	**233,965**
Foreign currency translation	-	-	4,641	-	4,641	555	5,196
Gain on cash flow hedges, net of tax (Note 6)	-	-	628	-	628	-	628
Other comprehensive income	-	-	5,269	-	5,269	555	5,824
Profit for the period	-	-	-	10,323	10,323	1,460	11,783
Total comprehensive income for the period	-	-	5,269	10,323	15,592	2,015	17,607
Equity-settled share-based payments	-	-	2,864	-	2,864	-	2,864
Acquisition of non-controlling interests	-	-	-	-	-	(38)	(38)
Other	-	-	-	(47)	(47)	-	(47)
Balance at June 30, 2011	**741**	**381,636**	**44,291**	**(186,205)**	**240,463**	**13,888**	**254,351**
Balance at January 1, 2010	**725**	**379,518**	**31,284**	**(198,897)**	**212,630**	**15,793**	**228,423**
Foreign currency translation	-	-	(7,321)	-	(7,321)	(2,179)	(9,500)
Loss on cash flow hedges, net of tax (Note 6)	-	-	(3,642)	-	(3,642)	-	(3,642)
Other comprehensive loss	-	-	(10,963)	-	(10,963)	(2,179)	(13,142)
Profit (loss) for the period	-	-	-	1,099	1,099	(547)	552
Total comprehensive (loss) income for the period	-	-	(10,963)	1,099	(9,864)	(2,726)	(12,590)
Equity-settled share-based payments	-	-	1,429	-	1,429	-	1,429
Other	-	-	2	1	3	-	3
Balance at June 30, 2010	**725**	**379,518**	**21,752**	**(197,797)**	**204,198**	**13,067**	**217,265**

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

AMG Advanced Metallurgical Group N.V.
Condensed interim consolidated statement of cash flows

For the six months ended June 30

In thousands of US Dollars		2011 Unaudited	2010 Unaudited
Cash flows used in operating activities			
Profit for the period		11,783	552
Adjustments to reconcile profit to net cash flows:			
Non-cash:			
Depreciation and amortization		14,169	12,096
Restructuring expense	15	2,459	7
Environmental expense	15	246	506
Net finance costs		9,547	5,536
Share of loss of associates		6,071	9,420
Equity-settled share-based payment transactions		1,833	3,081
Income tax expense	5	12,792	10,993
Change in working capital and provisions		(46,736)	(35,719)
Other		2,528	2,119
Finance costs paid, net		(5,136)	(7,449)
Income tax paid, net		(21,636)	(21,437)
Net cash flows used in operating activities		**(12,080)**	**(20,295)**
Cash flows used in investing activities			
Proceeds from sale of property, plant and equipment	7	49	439
Acquisition of property, plant and equipment and intangibles	7, 8	(19,913)	(11,953)
Investments in associates		-	(10,322)
Acquisitions, net of $690 cash acquired		(26,816)	-
Change in restricted cash		1,839	(181)
Other		956	(12)
Net cash flows used in investing activities		**(43,885)**	**(22,029)**
Cash flows from financing activities			
Proceeds from issuance of debt	12	221,626	22,512
Payment of transaction costs related to debt issuance	12	(10,457)	-
Repayment of long term borrowings		(187,276)	(1,420)
Other		6	115
Net cash flows from financing activities		**23,899**	**21,207**
Net decrease in cash and cash equivalents		**(32,066)**	**(21,117)**
Cash and cash equivalents at January 1		89,311	117,016
Effect of exchange rate fluctuations on cash		3,891	(11,325)
Cash and cash equivalents at June 30		**61,136**	**84,574**

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

1. Reporting Entity

AMG Advanced Metallurgical Group N.V. (hereafter referred to as 'AMG' or 'the Company') is domiciled in the Netherlands. The address of the Company's registered office is WTC Amsterdam, Toren C, Strawinskylaan 1343, 1077 XX Amsterdam. The condensed interim consolidated financial statements of the Company as at and for the period ended June 30, 2011 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. In July 2007, the Company completed an initial public offering ("IPO") of 9,333,409 shares, which are listed on Euronext, Amsterdam the Netherlands. The principal activities of the Company and its subsidiaries are described in Note 3.

2. Basis of preparation and accounting policies

Basis of preparation

The condensed interim consolidated financial statements for the six months ended June 30, 2011 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at December 31, 2010.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2010, except for the adoption of new standards and interpretations as of January 1, 2011, noted below:

- IAS 24 *Related Party Transactions* (Amendment): The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.
- IAS 32 *Financial Instruments: Presentation* (Amendment): The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Company.
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment): The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The amendment to the interpretation has had no effect on the financial position or performance of the Company.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*: The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.

Improvements to IFRSs (issued May 2010)
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. 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 Group.

- IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- IFRS 7 *Financial Instruments – Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The Company provides this analysis in note 6.
- IAS 34 *Interim Financial Statements*: The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements.

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 Group:

- IFRS 3 *Business Combinations*: Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005)
- IFRS 3 *Business Combinations*: Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination
- IAS 27 *Consolidated and Separate Financial Statements*: applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards
- IFRIC 13 *Customer Loyalty Programmes*: in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty program

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Segment information

For management purposes, the Company is organized under three separate reportable segments: Advanced Materials, Engineering Systems and Graphit Kropfmühl ("GK"). Advanced Materials produces specialty metals, alloys and chemicals and has major production facilities in the United Kingdom, United States, Germany, Brazil, Turkey and France. The Engineering Systems Division provides specialty engineering services through its development and manufacturing of vacuum furnace systems and has production facilities that are located in Germany, France, Singapore, Mexico and the United States. GK produces specialty graphite and silicon metal and is located mainly in Germany, Czech Republic, China, Zimbabwe and Sri Lanka.

The management reporting format is determined by reportable 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 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 Energy, Aerospace, Infrastructure, Specialty Metals and Chemicals end markets. Within Advanced Materials, eight operating units are aggregated to create the one reportable segment.

Engineering Systems – This segment 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 three operating units and those three operating units are aggregated to create one reportable segment.

Graphit Kropfmühl – This segment's operations are mainly in Germany with its own secured and controlled raw material resources for graphite in Asia, Africa and Europe. Graphit Kropfmühl manufactures silicon metal which is used in the Energy and Specialty Metals and Chemicals end markets. It also specializes in the extraction, processing and refining of natural crystalline graphite for a wide range of energy saving industrial applications. 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 2011 and 2010 based on an estimation of services provided to the segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements, adjusted for non-recurring items. The Company's headquarters costs, financing (including finance costs and finance income) and assets are managed on a group basis and are allocated to operating segments.

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

Segment information:

Six months period ended June 30, 2011	Advanced Materials	Engineering Systems	GK	Other and Eliminations	Total
Revenue					
Revenue from external customers	446,425	154,699	85,193	-	686,317
Intersegment revenue	199	315	-	(514) [1]	-
Total revenue	446,624	155,014	85,193	(514) [1]	686,317
Segment results					
Operating profit	22,018	8,017	10,158	-	40,193
Profit (loss) for the period	9,639	2,054	6,412	(6,322)	11,783

Six months period ended June 30, 2010	Advanced Materials	Engineering Systems	GK	Other and Eliminations	Total
Revenue					
Revenue from external customers	292,518	124,821	61,999	-	479,338
Intersegment revenue	315	179	-	(494) [1]	-
Total revenue	292,833	125,000	61,999	(494)[1]	479,338
Segment results					
Operating profit	14,754	10,747	1,000	-	26,501
Profit (loss) for the period[2]	6,829	9,562	(8,503)	(7,336)	552

Segment assets	Advanced Materials	Engineering Systems	GK	Other and Eliminations	Total
At June 30, 2011	754,754	394,417	113,433	(296,884) [1]	965,720
At December 31, 2010	636,418	373,904	78,476	(233,723) [1]	855,075

[1] Intersegment revenues are eliminated on consolidation. Intersegment assets are also eliminated on consolidation.
Segment assets do not include inter-group financing as these loans are part of the Company's overall financing strategy.
[2] Losses from associates have been reclassified within the segments thereby affecting profit (loss) for the period to conform with the 2010 annual financial statement presentation.

4. Acquisitions

Acquisition of KB Alloys, LLC

On February 18, 2011, the Company acquired 100% of the LLC interests of KB Alloys, LLC ("KB") from CHS Capital LLC for $24,305 in cash. KB is the North American market leader in the production of aluminum master alloys and grain refiners. The combination of KB with AMG's aluminum master alloys businesses establishes AMG as the world's largest producer of master alloys for the aluminum industry. This acquisition expands AMG's cost-effective product offering while assuring security of supply for customers.

The purchase price was provisionally allocated and is subject to change based on the potential identification of additional intangible assets. The provisional allocation is made to the following categories:

	Recognized on acquisition *(Provisional)*	
Property, plant and equipment	17,098	
Intangible assets	35	
Other long-term assets	1,260	
Cash	89	
Prepayments	351	
Trade receivables	9,459	
Inventories	9,781	
Derivative financial instruments	83	
	38,156	
Trade payables	5,518	
Accrued expenses and other current liabilities	1,088	
Debt	1,414	
Deferred tax liability	4,488	
Other noncurrent liabilities	1,348	
	13,856	
Net assets	24,300	
Goodwill arising on acquisition	5	
Consideration, satisfied by cash	24,305	
Cash flow on acquisition:		
Net cash acquired with the subsidiary		89
Cash paid		24,305
Net cash outflow		24,216

At the date of acquisition, the gross amount of trade receivables was $9,461 and the fair value of trade receivables was $9,459. The estimated contractual cash flows not expected to be collected at the acquisition date was $2.

The revenues and profit before tax of KB Alloys for the six months ended June 30, 2011, including the period prior to the acquisition, are $46,919 and $326, respectively. The revenues and profit before tax of KB Alloys for the six months ended June 30, 2011, excluding the period prior to the acquisition, are $35,969 and $792, respectively.

The Company incurred transaction related costs of $456 in conjunction with the acquisition of KB Alloys.

Acquisition of MG India
On February 17, 2011, the Company acquired 100% of the interests of MG India for $3,163 in cash. MG India is an Indian trading company, specifically focused on metal trading. There were very limited assets acquired with respect to the business.

The purchase price was provisionally allocated to the following categories:

	Recognized on acquisition *(Provisional)*	
Property, plant and equipment	84	
Other long-term assets	77	
Cash	601	
Prepayments	42	
Trade receivables	247	
	1,051	
Trade payables	4	
Accrued expenses and other liabilities	136	
	140	
Net assets	911	
Goodwill arising on acquisition	2,252	
Consideration, satisfied by cash	3,163	
Cash flow on acquisition:		
Net cash acquired with the subsidiary		601
Cash paid		3,163
Net cash outflow		2,562

At the date of acquisition, the gross amount of trade receivables was $247 and the fair value of trade receivables was $247. The estimated contractual cash flows not expected to be collected at the acquisition date was $0.

The Company incurred transaction related costs of $118 in conjunction with the acquisition of MG India.

As of June 30, 2011, no intangibles could be identified which required valuation. MG India is a trading company with monthly purchase orders and a continually changing customer base. Therefore, all excess purchase price has been treated provisionally as goodwill. Goodwill was created on this transaction as the purchase was geographically strategic. It allows AMG to have a presence in India which will allow it to access the large and growing Indian market.

Acquisition of additional shares of Graphit Kropfmühl

The Company acquired $38 of additional shares in Graphit Kropfmühl which was recorded as a reduction of non-controlling interest.

5. Income Tax

The major components of income tax expense in the condensed consolidated income statement are:

	June 30, 2011	**June 30, 2010**
Current income tax		
Current income tax charge	13,775	23,921
Deferred income tax		
Relating to origination and reversal of temporary differences	(983)	(12,928)
Total income tax expense	12,792	10,993

Significant changes are noted in the deferred tax liability balance in the consolidated statement of financial position as at June 30, 2011. The increase in the deferred tax liability balance is partially due to the recognition of tax liabilities resulting from the acquisition of KB Alloys and the related step-up in fixed asset values. Additional amounts were added to this balance due to the creation of temporary differences on long-term contracts, specifically, for those accounted for under the percentage-of-completion method.

6. Components of other comprehensive income (loss)

	June 30, 2011	**June 30, 2010**
Cash flow hedges:		
Gains (losses) arising during the year	2,649	(801)
Tax effect on gains (losses) arising during the year	(207)	293
Less: Reclassification adjustments for gains (losses) included in the income statement	(1,541)	(3,029)
Less: Tax effect on reclassification adjustments	(273)	(105)
	628	(3,642)

7. Property, plant and equipment

Acquisitions and disposals

During the six months ended June 30, 2011, assets with a cost of $19,730 (2010: $11,664) were acquired.

Assets with a book value of $183 were disposed of during the six months ended June 30, 2011 (2010: $462) resulting in a loss on disposal of $123 (2010: $110).

8. Intangible assets

Intangible assets are tested for impairment annually and when circumstances indicate the carrying value may be impaired. No impairment tests were deemed necessary as there were no indications of impairment at June 30, 2011.

During the six months ended June 30, 2011, intangible assets with a cost of $183 (2010: $289) were acquired. In addition, goodwill of $2,252 was recorded in connection with the acquisition of MG India as well as $5 in connection with the acquisition of KB Alloys. See note 4.

9. Inventories

During the six months ended June 30, 2011, the provision for inventory valuation increased cost of sales by $2,485 (2010: decreased cost of sales by $1,459).

10. Cash and Cash equivalents

Cash and cash equivalents are comprised of the following:

	June 30, 2011	**December 31, 2010**
Bank balances	52,265	72,192
Time deposits	8,871	17,119
	61,136	89,311

Bank balances earn interest at floating rates based on daily bank deposit rates while cash equivalents are time deposits with maturities of three months or less which earn interest based on the maturities.

11. Capital and reserves

There have been no significant changes to the Company’s capital and reserves as of June 30, 2011, except for with respect to elements of other comprehensive income (loss) and equity-settled share based payments as more fully disclosed in notes 6 and 14, respectively.

12. Interest-bearing loans and borrowings

Credit Facility

On April 28, 2011, the Company entered into a five-year multicurrency term loan and revolving credit facility with Commerzbank AG and Lloyds TSB Bank plc. The credit facility is composed of a €64,200 term loan and a $214,200 revolving credit facility ("Revolving Credit Facility"). AMG used the proceeds of the credit facility to repay its existing $275,000 term loan and multicurrency revolving credit facility which was due to expire in August 2012. The new credit facility's borrowing costs are generally consistent with those in the existing debt facility. The new facility is structured to be able to increase under certain conditions. The five-year facility extends the term of the Company's primary debt agreements to April 2016. The issuance costs associated with this agreement have been included, in the amount of $10,457, in deriving the debt balance shown in the balance sheet. With respect to the previous credit facility, the Company incurred a loss on extinguishment of $3,902.

During the six months ended June 30, 2011, AMG borrowed $29,951 against the Revolving Credit Facility and the predecessor $275,000 term loan and multicurrency revolving credit facility. As of June 30, 2011, available revolver capacity was $44,791.

13. Pension plans

The subsidiaries of the Company have several defined benefit pension plans in North America and Europe. Some of these plans require that contributions be made to separately administered funds. As of June 30, 2011, the employee benefits liability has increased to $98,238 from the December 31, 2010 balance of $88,372. This change is primarily due to currency changes and normal interest and service cost. There have been no significant changes to the pension plans since December 31, 2010.

14. Share-based payments

During the six months ended June 30, 2011, 119,244 share options were granted under the 2009 AMG Option Plan to the AMG management board as part of their 2011 compensation package, as approved at the Company's Annual General Meeting. One half of the options granted to each option holder 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. All options under the Plan are equity settled, in accordance with IFRS 2, by award of options to acquire ordinary shares or award of ordinary shares. The fair value of the options granted during the six months ended June 30, 2011 was calculated using a binomial expected life model. The assumptions used in the calculation are set out below.

Exercise Price	€15.10
Share price at date of grant	€15.10
Contractual life (years)	10
Dividend Yield (%)	Nil
Expected Volatility (%)	71.12%
Risk-free interest rate (%)	2.28%
Expected life of option (years)	3-4 years
Expected departures (%)	10.0%

Cash-settled share-based payments

During the six months ended June 30, 2011, the Company issued 159,069 performance share units (PSUs) to certain employees which can be settled in either cash or shares. The fair value for outstanding PSUs at June 30, 2011 ranged from €9.93 to €12.02, depending on the vesting term. Fair value of all PSUs outstanding is determined using the binomial method using the following assumptions:

Contractual life (years)	1-3
Dividend yield (%)	Nil
Expected volatility (%)	46% - 115%
Risk-free interest rate (%)	1.68% – 2.13%
Expected life of option (years)	1-3
Expected departures (%)	10.0%

Due to changes in the fair value of performance share units, the Company recorded expense of $9,805 in the six months ended June 30, 2011 and has a liability of $7,591 related to all outstanding PSUs at June 30, 2011. During the six months ended June 30, 2011, $6,158 was paid out with respect to the vesting of one-third of the 2009 PSU grant.

On May 11, 2011, the Company amended the PSU agreement so that the payments for future settlements of performance share units could be paid either in cash or in shares, at the Company's discretion. This did not have any impact on the valuation of the PSUs.

15. Provisions

Restructuring

During the six months ended June 30, 2011, payments of $590 (2010: $2,545) were made from the restructuring provision. Additional restructuring provisions of $2,459 (2010: $7), were recognized in the six months ended June 30, 2011. The largest increase in the restructuring provision is related to the termination of the Silmag DA joint venture agreement. With the termination of the joint venture, there are closing costs related the shutdown of the facility as well as the realization of a value added tax liability which total $2,126. Additional restructuring costs of $259 relate to a small staff reorganization in the Company's Advanced Materials business due to the KB Alloys acquisition. The final $74 relates to the termination of one executive in the Company's GK segment.

Environmental

During the six months ended June 30, 2011, payments of $505 (2010: $273) were made from the environmental provision and additional provisions of $246 (2010: $506) were accrued. Additional environmental provisions relate to an ongoing decommissioning liability in Brazil and incremental environmental costs related to the REACH implementation in Europe.

Other

During the six months ended June 30, 2011, warranty payments of $882 (2010: $687) and additional provisions of $820 (2010: $2,198) were made. Warranty provisions are provided on certain contracts and the provisions are made on a contract by contract basis or on actual claims made by customers. Each contractual warranty is expected to be utilized or derecognized within 12 months.

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, our German subsidiaries have made provisions for those employees who are eligible per their employment contracts. During the six months ended June 30, 2011, there were additional provisions of $303 and payments of $838.

Engineering Systems builds a project cost provision on a contract by contract basis. The amounts are a result of expected project costs and are based on current manager estimates and historical cost percentages. The project cost provision is utilized or derecognized over the life of the project. During the six months ended June 30, 2011, project cost payments of $1,419 (2010: $965) and additional provisions of $2,390 (2010: $8,989) were made.

16. Financial instruments

During the six months ended June 30, 2011, there were no significant changes in policies with respect to financial instruments. In addition, the maturity profile of the financial instruments has not changed significantly in the six months ended June 30, 2011. The following represents a summary of the financial instruments as of June 30, 2011 as compared to December 31, 2010.

Interest rate hedges

In April 2011, the Company entered into two interest rate hedge agreements for the entire drawdown of the term loan of €64,200 as well as $95,000 and €6,800 of the revolver. These interest rate swaps were executed so that the Company could hedge its exposure to changes in the benchmark interest rate on the term loan of €64,200 and $95,000 and €6,800 of the revolver. The fair value of the euro interest rate swap as at June 30, 2011 is a current liability of ($328). The fair value of the dollar interest rate swap as at June 30, 2011 is a current asset of $4.The fair value of the previous interest rate swap as at December 31, 2010 was ($74).

A subsidiary of AMG, GK has interest rate hedges for a variety of floating rate debt instruments to minimize interest rate risk. At June 30, 2011, the fair value of the various interest rate swaps was ($821) (current liability of $273 and a non-current liability of $548). The fair value of interest rate swaps as of December 31, 2010 was ($1,018) (current liability of $337 and a non-current liability of $681).

An unrealized gain of $731 is included in equity for the interest rate swaps that were assessed to be highly effective as at June 30, 2011. One of the interest rate swaps was ineffective and all amounts related to this are recognized directly in the income statement.

Commodity forward contracts and foreign currency forward contracts

The Company views derivative instruments as risk management tools and does not use them for trading or speculative purposes. During the course of operations, including normal purchases and sales of product, the Company enters into commodity forward and foreign exchange contracts to manage price and currency risks. No significant new contracts were entered into as of June 30, 2011, other than in the ordinary course of business. The following are the fair values of the contracts that were in place at June 30, 2011 and December 31, 2010.

	June 30, 2011	**December 31, 2010**
Assets		
Commodity forward contracts	200	634
Liabilities		
Commodity forward contracts	367	121

The commodity cash flow hedges that are treated as cash flow hedges were assessed to be highly effective and as at June 30, 2011 an unrealized gain of $97 is included in equity.

	June 30, 2011	**December 31, 2010**
Assets		
Foreign exchange forward contracts	6,305	5,183
Liabilities		
Foreign exchange forward contracts	4,221	1,239

Foreign exchange forward contracts that are treated as cash flow hedges were deemed to be highly effective and as at June 30, 2011, there was an unrealized gain of $3,371, with a deferred tax liability of $655 relating to the hedging instruments, included in equity.

Convertible note

The Company has an outstanding convertible promissory note with Becancour Silicon Inc. The convertible note is accounted for as a hybrid instrument with the note and the equity option being valued separately. The fair value of the embedded derivative is estimated using an option pricing model. The value of the convertible note was $892 as of June 30, 2011 (December 31, 2010: $71). The value of the equity option on the convertible note was $4,778 as of June 30, 2011 (December 31, 2010: $5,113). Interest income from the convertible note was $1,172 for the six months ended June 30, 2011.

17. Commitments and contingencies

Commitments

There have been no material updates to the Company's commitments as discussed in notes 33 and 34 to the 2010 consolidated financial statements.

Contingencies

There has only been one material update to the Company's contingencies discussed in note 35 to the 2010 consolidated financial statements. There is now more certainty with respect to the contingency for the Company's investment in Silmag DA. The Company has notified its joint venture partner that it plans to terminate its joint venture in 2011. The termination of this venture has related closing costs associated with it, including the recognition of the liability for value added tax which was disclosed in note 35. This liability was recorded as a provision in the amount of $2,126 in the six months ended June 30, 2011.

18. Related parties

Transactions with associates

The Company provided tolling services to Timminco during the six months ended June 30, 2011 and recorded revenues of $719 associated with these services. Timminco, in turn, billed the Company for certain costs which were incurred related to the tolling. Those costs totalled $777 during the six months ended June 30, 2011. Timminco purchased spare parts from the Company's subsidiaries during the period ended June 30, 2011. These sales amounted to $208. As of June 30, 2011, the Company had a net receivable due from Timminco in the amount of $116.