

AMG Advanced Metallurgical Group N.V.
Combined balance sheet

As at 31 December

In thousands of US Dollars

	<i>Note</i>	2006	2005
Assets			
Property, plant and equipment	<i>13</i>	101,256	105,792
Intangible assets	<i>14</i>	44,898	42,367
Investments in associates	<i>15</i>	13,303	11,734
Deferred tax assets	<i>12</i>	21,731	16,639
Other assets		4,981	4,596
Total non-current assets		186,169	181,128
Inventories	<i>16</i>	159,651	153,332
Trade and other receivables	<i>17</i>	140,976	128,010
Derivative financial instruments	<i>30</i>	2,448	1,896
Prepayments		26,784	31,221
Cash and cash equivalents	<i>18</i>	54,610	50,317
Total current assets		384,469	364,776
Total assets		570,638	545,904
Equity			
Issued capital		59	-
Share premium		129,986	129,131
Other reserves		(15,313)	(3,593)
Retained earnings		(148,840)	(153,347)
Equity attributable to shareholders of the Company		(34,108)	(27,809)
Minority interests		10,367	18,984
Total equity	<i>19</i>	(23,741)	(8,825)
Liabilities			
Loans and borrowings	<i>21</i>	185,386	199,280
Related party debt	<i>22</i>	721	3,881
Employee benefits	<i>24</i>	94,245	105,485
Provisions	<i>26</i>	5,835	14,491
Other liabilities	<i>27</i>	9,579	8,031
Deferred tax liabilities	<i>12</i>	12,989	10,562
Total non-current liabilities		308,755	341,730
Loans and borrowings	<i>21</i>	22,659	7,779
Short term bank debt	<i>23</i>	53,180	41,749
Related party debt	<i>22</i>	14,815	5,457
Trade and other payables	<i>28</i>	93,841	78,414
Other liabilities	<i>27</i>	44,417	40,095
Derivative financial instruments	<i>30</i>	1,303	1,950
Advance payments		29,739	18,952
Current taxes payable	<i>12</i>	13,126	7,716
Provisions	<i>26</i>	12,544	10,887
Total current liabilities		285,624	212,999
Total liabilities		594,379	554,729
Total equity and liabilities		570,638	545,904

The notes are an integral part of this combined financial information.

AMG Advanced Metallurgical Group N.V.
Combined income statement

For the year ended 31 December

In thousands of US Dollars

	<i>Note</i>	2006	2005
Continuing operations			
Revenue	8	927,808	906,711
Cost of sales		777,203	728,834
Gross profit		150,605	177,877
Selling, general and administrative expenses		97,236	100,095
Restructuring and asset impairment expense	26	19,341	20,961
Environmental Expenses	26	11,044	199
Other expenses		1,324	2,988
Pension Curtailment Gain	24	(15,159)	-
Other income	9	(1,264)	(6,413)
Operating profit	5	38,083	60,047
Loss on extinguishment of debt	21	-	10,234
Interest expense		36,559	33,207
Interest Income		(3,544)	(3,968)
Net finance costs	11	33,015	39,473
Share of profit of associates	15	(2,372)	447
Profit before income tax		2,696	21,021
Income tax expense	12	8,383	16,332
Profit for the year		(5,687)	4,689
Attributable to:			
Shareholders of the Company		4,507	16,874
Minority interests		(10,194)	(12,185)
		(5,687)	4,689
Earnings per share			
Basic earnings per share	20	10,015.55	-
Diluted earnings per share	20	1.29	-

The notes are an integral part of this combined financial information.

AMG Advanced Metallurgical Group N.V.
Combined statement of changes in equity

In thousands of US Dollars

	Equity attributable to shareholders of the parent					Minority interests	Total Equity
	Issued capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2005	-	126,915	(3,291)	(170,221)	(46,597)	32,193	(14,404)
Foreign currency translation	-	-	(1,607)	-	(1,607)	(643)	(2,250)
Gain on cash flow hedges, net of tax	-	-	1,305	-	1,305	-	1,305
Net income recognised directly in equity	-	-	(302)	-	(302)	(643)	(945)
Profit (loss) for the year	-	-	-	16,874	16,874	(12,185)	4,689
Total recognised income and expense for the year	-	-	(302)	16,874	16,572	(12,828)	3,744
Acquisition of minority interest	-	-	-	-	-	(2,233)	(2,233)
Issuance of shares for acquisition	-	2,056	-	-	2,056	1,719	3,775
Equity-settled share-based payments	-	160	-	-	160	133	293
Balance at 31 December 2005	-	129,131	(3,593)	(153,347)	(27,809)	18,984	(8,825)
Foreign currency translation	-	-	2,952	-	2,952	604	3,556
Loss on cash flow hedges, net of tax	-	-	(372)	-	(372)	-	(372)
Net income recognised directly in equity	-	-	2,580	-	2,580	604	3,184
Profit (loss) for the year	-	-	-	4,507	4,507	(10,194)	(5,687)
Total recognised income and expense for the year	-	-	2,580	4,507	7,087	(9,590)	(2,503)
Issuance of shares	59	-	-	-	59	-	59
Convertible debt	-	-	-	-	-	1,453	1,453
Equity-settled share-based payments	-	855	-	-	855	715	1,570
Warrant expiration	-	-	-	-	-	(1,195)	(1,195)
Acquisition of Treasury Shares (1)	-	-	(14,300)	-	(14,300)	-	(14,300)
Balance at 31 December 2006	59	129,986	(15,313)	(148,840)	(34,108)	10,367	(23,741)

The notes are an integral part of this combined financial information.

(1) Note 19

AMG Advanced Metallurgical Group N.V.
Combined statement of cash flows

For the year ended 31 December

In thousands of US Dollars

	<i>Note</i>	2006	2005
Cash flows from operating activities			
Profit for the period		(5,687)	4,689
Adjustments for:			
Depreciation and amortization	<i>13, 14</i>	18,529	18,272
Pension curtailment gain		(15,159)	-
Restructuring expense and impairment losses	<i>13, 26</i>	19,341	20,961
Environmental expense		11,844	151
Net finance costs	<i>11</i>	33,015	29,239
Share of loss (profit) of associates		2,372	(447)
Loss on sale or disposal of property, plant and equipment	<i>13</i>	2,617	692
Equity-settled share-based payment transactions	<i>25</i>	386	282
Income tax expense	<i>12</i>	8,383	16,332
<hr/>			
Change in inventories	<i>16</i>	(6,359)	(21,591)
Change in trade and other receivables	<i>17</i>	(12,355)	(10,746)
Change in prepayments		2,933	(9,370)
Change in trade payables and provisions	<i>28</i>	(474)	53,125
Other		(1,644)	(4,276)
<hr/>			
Interest paid		(28,650)	(22,012)
Income tax paid		(5,799)	(6,692)
Net cash flows from operating activities		23,353	58,609
<hr/>			
Cash flows used in investing activities			
Proceeds from sale of property, plant and equipment	<i>13</i>	420	191
Cash received for note receivable		-	1,353
Acquisition of associates	<i>7</i>	(4,003)	(382)
Acquisition of property, plant and equipment	<i>13</i>	(24,292)	(13,659)
Related party loans	<i>23</i>	(11,046)	(14,312)
Net cash flows used in investing activities		(38,921)	(26,809)

The notes are an integral part of this combined financial information.

AMG Advanced Metallurgical Group N.V.
Combined statement of cash flows (continued)

For the year ended 31 December

In thousands of US Dollars

	<i>Note</i>	2006	2005
Cash flows from (used in) financing activities			
Proceeds from issuance of debt	21	26,619	209,893
Payment of transaction costs	21	(207)	(13,487)
Repayment of borrowings	21	(11,878)	(219,883)
Issuance of Shares		59	-
Other		(121)	(4)
Net cash flows from (used in) financing activities		14,472	(23,481)
Net decrease in cash and cash equivalents			
		(1,096)	8,319
Cash and cash equivalents at 1 January		50,317	45,827
Effect of exchange rate fluctuations on cash held		5,389	(3,829)
Cash and cash equivalents at 31 December	18	54,610	50,317

The notes are an integral part of this combined financial information.

Notes to the combined financial information

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1. Reporting entity

AMG Advanced Metallurgical Group N.V. (the “Company”) is domiciled in the Netherlands. The address of the Company’s registered office is Prins Bernhardplein 200, 1097 JB Amsterdam. The combined financial information of the Company as at and for the year ended 31 December 2006 comprise the Company and the companies that will comprise its subsidiaries (together referred to as the “Company”) and the Company’s interest in associates and jointly controlled entities.

AMG was incorporated in the Netherlands as a public limited liability company on 21 November 2006 by Safeguard International Fund 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. The subsidiaries that make up the combined entity are primarily located in Europe, North America and South America. The Company 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, power supply, automotive, petrochemical processing and telecommunications industries (see note 6). The Company also designs, engineers and produces advanced vacuum furnace systems and operates vacuum heat treatment facilities. It sells vacuum furnace systems to customers in the aerospace, solar, energy, automotive, electronics, ceramics and specialty steel industries. The Company also provides vacuum heat services on a tolling basis to customers through its “Own & Operate” facilities equipped with vacuum heat treatment furnaces.

These financial statements represent the combined financial information of the Company. This combined financial information present the historic combined financial position, results of operations and cash flows of the subsidiaries of the Company as if they had operated on a consolidated basis under the control of the Company. Subsidiaries included in the combined financial information of the Company are as follows:

NAME	COUNTRY OF INCORPORATION	PERCENT. HELD (DIRECTLY OR INDIRECTLY) BY COMPANY
ALD Lindgren Inc.	Canada	100
ALD Own & Operate GmbH	Germany	100
ALD Polska s.z.o.o	Poland	100
ALD Thermal Treatment, Inc.	United States	100
ALD Thermo Technologies Far East	Japan	100
ALD Vacuum Technologies GmbH	Germany	100
ALD Vacuum Technologies Inc.	United States	100
ALD Vacuum Technologies Ltd.	United Kingdom	100
Alpoco Developments Limited	United Kingdom	100
Aurora Partnership	United States	54.45
Bécancour Silicon Inc.	Canada	54.45
Benda-Lutz-Alpoco Sp.z o.o.	Poland	51
Castle Crushing Limited	United Kingdom	100
Companhia Industrial Fluminense	Brazil	100
Korin Grundstücksgesellschaft GmbH & Co. Projekt 30 KG	Germany	94.9
Fundo Holdings AS	Norway	54.45
GfE Gesellschaft für Elektrometallurgie mbH	Germany	100
GfE Materials Technology	United States	100
GfE Metalle und Materialien GmbH	Germany	100
H.M.I. Limited	United Kingdom	100
Industrial Adhesives Limited	Canada	54.45
London & Scandinavian Metallurgical Co Limited	United Kingdom	100
Metal Alloys (South Wales) Limited	United Kingdom	100
Metalloys Limited (dormant)	United Kingdom	100
Metallurg Delaware Holding Company	United States	100
Metallurg Europe Limited	United Kingdom	100
Metallurg, Inc.	United States	100
Metallurg Vanadium Corporation	United States	100
M. & A. Powders Limited (dormant)	United Kingdom	100
NorWheels AS	Norway	54.45
OOO ALD VT Russland	Russia	100
Produits Chimiques de Lucette S.A	France	100
S.A. Vickers Limited (dormant)	United Kingdom	100
Shieldalloy Metallurgical Corporation	United States	100
Société Industrielle et Chimique de l’Aisne	France	100
Sudamin France SAS	France	100
Sudamin Holdings S.A.	Belgium	100
Sudamin S.A.	Belgium	100
The Aluminium Powder Company Limited	United Kingdom	100
Timminco Adhesives Corporation	United States	54.45
Timminco Colorado Corporation	United States	54.45
Timminco Corporation	United States	54.45

Notes to the combined financial information

NAME	COUNTRY OF INCORPORATION	PERCENT. HELD (DIRECTLY OR INDIRECTLY) BY COMPANY
Timminco de Mexico S.A. de CV	Mexico	54.45
Timminco Holdings Corporation	United States	54.45
Timminco Limited	Canada	54.45
Timminco Properties Inc.	United States	54.45
Timminco Pty Limited	Australia	54.45
Timminco S.A.	Switzerland	54.45
Timminco Technologies Corporation	United States	54.45
VACUHEAT GmbH	Germany	100
VACUHEAT Verwaltungsgesellschaft mbH	Germany	100

2. Basis of preparation

(a) Statement of compliance

The combined financial information has been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU (in this document further referred to as IFRS), with the exception of the application of International Accounting Standard (“IAS”) 27, *Consolidated and Separate Financial Statements*, which requires the consolidation of all subsidiaries under the control of the reporting entity. This is further discussed below.

All amounts included in combined financial information and notes are presented in US Dollars and rounded to the nearest Dollar in 1,000’s except where otherwise indicated

The intention of the issuer is to show in the combined historical financial information the financial position and operating results of the discrete parts of companies that will be included in the initial public offering.

The financial information, which has been prepared specifically for the purpose of this prospectus, therefore only includes the results, assets and liabilities of the issuer and its core subsidiaries that will be part of AMG NV, for each of the periods ended 31 December 2006 and 2005.

IFRS (specifically, IAS 27) does not provide for inclusion of certain entities that were not under the control of the reporting entity in the combined financial information. The historical financial information included herein therefore does not constitute a set of general purpose financial statements under paragraph 3 of IAS 1 *Presentation of Financial Statements* and consequently the company does not make an explicit and unreserved statement of compliance with IFRS as contemplated by par. 14 of IAS 1.

However, except as described in the preceding paragraph, the historical combined financial information is prepared in all other material respects in accordance with recognition, measurement and presentation principles that are consistent with IFRS as adopted by the EU. The accounting principles are further described in Note 3.

An explanation of how the transition to IFRS (as adopted by the EU) has affected the reported financial position, financial performance and cash flows of the Company is provided in note 4.

(b) Basis of measurement

The combined financial information has been prepared on the historical cost basis except that the derivative financial instruments were measured at fair value.

The methods used to measure fair values are discussed further in note 5.

(c) Use of estimates and judgements

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

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

2. Basis of preparation (continued)

(c) Use of estimates and judgements (continued)

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

- Note 8 – furnace construction contract revenue
- Note 12 – utilisation of tax losses
- Note 14 – measurement of the recoverable amounts of cash-generating units
- Note 24 – measurement of defined benefit obligations
- Note 25 – measurement of share-based payments
- Note 26 –provisions
- Note 29 – valuation of financial instruments

Key sources of estimation uncertainty

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

Furnace construction contract revenue

Revenue related to furnace construction contracts is recorded based on the estimated percentage of completion of contracts as determined by management. Significant management judgement is required to determine this percentage of completion. Total percentage of completion revenue for the year ended 31 December 2006 was \$120,139 (2005: \$92,143).

Utilisation of tax losses

Deferred tax assets are recognised for all unused tax losses to the extent that it is probably that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. The carrying value of recognised tax losses at 31 December 2006 was \$10,166 (2005: \$6,750). There are significant unrecognised tax losses as described in more detail in Note 12.

Measurement of the recoverable amounts of cash-generating units

(i) Patents with indefinite lives

Throughout the past several years, the Timminco operation has acquired patents related to its silicon manufacturing process which are deemed to have indefinite lives. During the year, management tested the recoverability of those assets which is included in the balance sheet at 31 December 2006 of \$3,991 (2005: \$3,982). They are deemed to remain recoverable.

(ii) Goodwill

The determination of whether goodwill is impaired requires an estimate of the recoverable amount of the cash generating unit or group of cash generating units to which the goodwill has been allocated. The recoverable amount is defined as the higher of a cash generating unit's fair value less costs to sell and its value in use. For Metallurg and ALD, the recoverable amount was determined as fair value less costs to sell. The fair value less costs to sell requires the entity to estimate the future cash flows expected to arise from the cash generating units or group of cash generating units and discounting these cash flows with a risk adjusted discount rate. The Company only invests in projects that have projected returns that are greater than its cost of capital. Therefore, a value in use calculation, which contemplated additional investments, was not required. For Timminco, the recoverable amount was the value in use in 2005, as this amount exceeded the fair value less costs to sell, but was the fair value less costs to sell in 2006. The carrying amount of goodwill at 31 December 2006 was \$36,116 (2005: \$34,280).

Measurement of defined benefit obligations

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The net employee liability at 31 December 2006 is \$94,245 (2005:\$105,485).

2. Basis of preparation (continued)

(c) Use of estimates and judgements (continued)

Provisions

Provisions have been recorded with respect to environmental, restructuring and warranty liabilities. These provisions require management's judgment with respect to the amounts recorded and the expected timing of payments. Amounts may change due to changes in circumstances surrounding environmental liabilities or warranties. Timing of payments can change with respect to environmental or restructuring as the execution of plans may require more or less time than anticipated. As at 31 December 2006, the provisions balance was \$18,379 (2005: \$25,378).

Valuation of financial instruments

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in this combined financial information and in preparing an opening IFRS balance sheet at 1 January 2005 for the purposes of the transition to IFRS. The accounting policies have been applied consistently by Company entities.

(a) Basis of consolidation

(i) Consolidation Principles

The combined financial information of the Company has been prepared on a historical cost basis, except for derivative financial instruments and financial instruments held for trading which have been measured at fair value. The combined financial information of AMG NV has been prepared in accordance with International Financial Reporting Standards ("IFRS") with the exception of the application of International Accounting Standard ("IAS") 27, *Consolidated and Separate Financial Statements*, which requires the consolidation of all subsidiaries under the control of the reporting entity. IFRS (specifically, IAS 27) does not provide for inclusion of certain entities that were not under the control of the reporting entity in the financial statements. The historical financial information included herein therefore does not constitute a set of general purpose financial statements under paragraph 3 of IAS 1 *Presentation of Financial Statements* and consequently the company does not make an explicit and unreserved statement of compliance with IFRS as contemplated by par. 14 of IAS 1. The combined financial information of the Company include the accounts of all entities as if a direct or indirect controlling interest exists through voting rights or qualifying variable interests at the balance sheet dates.

All intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions that are recognised 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 combined statements of income and in the equity section of the combined balance sheets.

(ii) Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The combined financial information includes 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. See note 7 for further details.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Joint Ventures

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

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognised based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognise 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 U.S., except certain operations in the United Kingdom and Brazil, where the U.S. Dollar is used as the functional currency. The determination of functional currency is based on appropriate economic and management indicators.

This combined financial information is presented in U.S. dollars, which is the Company's functional and reporting currency.

All financial information is presented in U.S. 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 Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange rate at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised 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 Dollar at exchange rates at the reporting date. The income and expenses of foreign operations are translated to US Dollar at exchange rates at the dates of the transactions.

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

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

3. Significant accounting policies (continued)

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings (including a finance lease in 2005), related party debt, short term bank debt and trade and other payables. The Company does not have any non-derivative financial instruments which are classified as held-to-maturity investments, available-for-sale financial assets, or financial assets at fair value through profit or loss.

Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

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 derecognised 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.

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

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

Trade and other payables are accounted for at cost.

(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 and caps, to manage certain foreign currency, commodity price and interest rate exposures. Such derivative financial instruments, except for contracts to buy or sell a business at a future date, are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. 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 recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

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 recognised directly in equity, while any ineffective portion is recognised immediately in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Derivative financial instruments (continued)

If the hedging instrument expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised 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 recognised 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.

(d) Derecognition of financial assets and liabilities

Financial Assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised 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 recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement 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.

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

Financial liabilities

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

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

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment and the costs of major inspections are recognised 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 recognised in profit or loss as incurred.

3. Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

(iii) Depreciation

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

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

<input type="checkbox"/> buildings and leasehold improvements	10-30 years
<input type="checkbox"/> machinery	2-13 years
<input type="checkbox"/> office furniture and equipment	3-13 years
<input type="checkbox"/> transportation equipment	3-5 years

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

An item of property, plant and equipment is derecognised 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 derecognised,

Borrowing costs are not capitalised and are expensed as incurred.

(iv) Exploration for and evaluation of mineral resources

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

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

These amounts are currently not significant. As at 31 December 2006 and 2005, there was \$884 and \$838 respectively, included in non-current assets in the combined balance sheet. These costs are amortized over the estimated useful life of the mine on a systematic basis. However, the mine was not in operation throughout most of 2006 and therefore, there was no amortization recorded.

(f) Business Combinations and Goodwill

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

Acquisitions prior to 1 January 2005

As part of its transition to IFRS, the Company elected to recognise only those business combinations that occurred on or after 1 January 2005. In respect of acquisitions prior to 1 January 2005, goodwill represents the amount recognised under the Company's previous accounting framework, which is either US GAAP or Canadian GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2005 has not been reconsidered in preparing the Company's opening IFRS balance sheet at 1 January 2005 (see note 4).

Acquisitions on or after 1 January 2005

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

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.

3. Significant accounting policies (continued)

(g) Intangible assets

(i) Patents and technology

A subsidiary of the Company has patents for a certain manufacturing process. The patents are deemed to have an indefinite life in accordance with IAS 38 as they have no expiration and the Company intends to use this patented process for the foreseeable future. Further evidence is provided through the fact that the process will not be adapted due to competition and the industry is growing.

(ii) Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised 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 include software that has useful lives of 3 – 5 years and rights of use that have lives of 5 years.

(h) Leased assets

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

Minimum lease payments made under finance leases are apportioned between the 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.

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

The Company adopted IFRIC 4 *Determining whether an Arrangement Contains a Lease*, which is mandatory for annual periods beginning on or after 1 January 2006, in this combined financial information.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined based on the average cost and specific identification methods, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

Cost of inventories includes the transfer from equity of gains and loss 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 amortised 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 recognised in profit or loss.

3. Significant accounting policies (continued)

(j) Impairment (continued)

(i) Financial assets (continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised 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, recoverable amount is estimated at each reporting date.

An impairment loss is recognised 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 recognised in profit or loss. Impairment losses recognised 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. For testing goodwill for impairment the fair value less costs to sell has been determined by the company for the generating unit or group of cash generating unit's goodwill has been assigned to. However, if tangible assets with a definite remaining useful life had to be tested for impairment for which a fair value less costs to sell has been available which was below its corresponding carrying amount a value in use has been determined for the cash generating unit to which the asset belongs. 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 shall be estimated for the asset or cash generating unit in its current condition by discounting the estimated future cash flows 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 recognised 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 amortisation, if no impairment loss had been recognised.

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

(ii) Defined benefit plans

The Company maintains defined benefit plans for its employees in the U.S., Canada, Germany, France, and the United Kingdom. In 2006, the Company underwent a significant restructuring plan and made significant changes to the primary defined benefit plans at LSM in the U.K. and to the largest defined benefit plan in the U.S. See note 24 for more details.

3. Significant accounting policies (continued)

(k) Employee benefits

(ii) Defined benefit plans (continued)

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 unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is based on the appropriate Corporate bond yields for the maturity dates of and country where the obligation exists. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised 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 recognised immediately in profit or loss.

All actuarial gains and losses as at 1 January 2005, the date of transition to IFRS, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 January 2005 in calculating the Company's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised 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 recognised.

On 1 June 2005, the Company entered into a Supplemental Executive Retirement Plan (the "SERP") with an officer of the Company (see note 24).

(iii) Short term benefits

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

A provision is recognised 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

Metallurg and Timminco have stock-based compensation plans, which are described in note 25. All the stock awards and stock options of Metallurg were granted before 7 November 2002. The Company has elected the IFRS 1 exemption not to apply IFRS 2 to equity instruments that were granted on or before November 7, 2002. The Company nevertheless needs to disclose certain information on the nature and extent of these arrangements. The Timminco stock-based compensation plan is accounted for using the Black-Scholes model, a fair-value method.

(l) Provisions

Provisions are recognised 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 of 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 recognised 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 recognised as a finance cost.

(i) Environmental remediation costs and recoveries

Certain subsidiaries of the Company are currently faced with a number of environmental issues relating to environmental cleanup requirements, largely resulting from historical solid and hazardous waste handling and disposal practices 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.

3. Significant accounting policies (continued)

(l) Provisions

(i) Environmental remediation costs and recoveries

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

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

Environmental expense recoveries are generally recognised in income upon final settlement with our insurance carriers.

(ii) Restructuring

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

(m) Convertible Debt

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

(n) Revenue

(i) Goods sold

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

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

(ii) Services

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

(iii) Furnace construction contracts

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

3. Significant accounting policies (continued)

(n) Revenue (continued)

(iv) Commissions

When the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised 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 recognised in profit or loss when incurred.

(p) Finance income and expenses

Finance income comprises interest income on funds invested, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, finance charges on finance leases, unwinding of the discount on provisions, foreign currency losses and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(q) Government grants

A certain subsidiary receives government grants related to early retirement provisions. Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Since the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(r) Income tax expense

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

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

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

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

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

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

3. Significant accounting policies (continued)

(r) Income tax expense (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

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

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

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

Sales tax

Revenues, expenses and assets are recognised 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 recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

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

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

(s) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's format for primary segment reporting is based on operations and the secondary segment reporting is based on geographical segments.

3. Significant accounting policies (continued)

(t) New standards

The following new standards, amendments to standards and interpretations are effective for the year ended 31 December 2006. If applicable, these standards and interpretations have been applied in preparing this combined financial information:

- IAS 19 *Employee Benefits* was amended whereby the Company is now required to provide additional disclosures about trends in assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit change. This has required additional disclosure, but has not had a recognition or measurement impact.
- IAS 21 *The Effects of Changes in Foreign Exchange Rates* was amended and as a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the combined financial information, regardless of the currency in which the monetary item is denominated. This change has had no impact on the combined financial information.
- IAS 39 *Financial Instruments: Recognition and Measurement* has been amended to discuss the treatment of several different financial instruments: financial guarantee contracts, hedges of forecast intra-group transactions, and the fair value option. As the Company did not have any of these instruments, these amendments did not have any impact on the combined financial information.
- IFRIC 4 *Determining whether an Arrangement contains a Lease* addresses whether arrangements contain a lease to which lease accounting must be applied. This accounting policy has not had a significant impact on the combined financial information.
- IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* established the accounting treatment for funds established to help finance decommissioning for assets. This interpretation had the impact of reducing the trust fund values recorded in the combined balance sheet to a discounted value.
- IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* establishes a recognition date arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. There was no impact on the combined financial information.

(u) Future changes in accounting policies

The following new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006. They will, however, be implemented in future years.

- IAS 1 *Presentation of Financial Statements* has been amended to make new disclosures to enable users to evaluate the Company's objectives, policies and processes for managing capital. This is not expected to have any significant impact on the combined financial information, but will provide additional disclosure.
- IFRS 7 *Financial Instruments: Disclosures* and the Amendment to IAS 1 *Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1 required additional disclosures with respect to Company's financial instruments and share capital.
- IFRS 8 *Operating segments* requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.
- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. It is to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. This is not expected to have a significant impact on the combined financial information.
- IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether an embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. This is not expected to have any significant impact on the combined financial information.
- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Early adoption of IFRIC 10 is not expected to have any significant impact on the combined financial information.
- IFRIC 11 *IFRS 2: Company and Treasury shares transactions* clarifies IFRS 2 in stating whether cash-settled or equity-settled accounting treatment should be used for certain share-based arrangements. Adoption of IFRIC 11 is not expected to have any significant impact on the combined financial information.

3. Significant accounting policies (continued)

(u) Future changes in accounting policies (continued)

- IFRIC 12 *Service Concession Arrangements* gives guidance on the accounting by operators for public-to-private service concession arrangements. Adoption of IFRIC 12 is not expected to have any impact on the combined financial information.

The implementation of these new standards will increase the level of disclosure provided in the footnotes to the financial statements, but they are not expected to have a significant impact on the results.

4. Explanation of transition to IFRS

As stated in note 2(a), the combined financial information in accordance with IFRS for the period ended 31 December 2006 represent the Company's first combined financial information in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2006, the comparative information presented in these financial statements for the year ended 31 December 2005 and in the preparation of an opening IFRS balance sheet at 1 January 2005, the Company's date of transition to IFRS.

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (US GAAP and Canadian GAAP). An explanation of how the transition from US GAAP and Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables. In order to reach the complete combined financial information, the column ALD IFRS has been added.

4. Explanation of transition to IFRS (continued)**Combined balance sheet****1-Jan-05***In thousands of US Dollars*

		MHI US GAAP	TIMMINC O CAD GAAP	ALD IFRS	Presentation and disclosure	Recognition and measurement	Effect of transition to IFRS	IFRS
Assets								
Property, plant and equipment	<i>a</i>	67,460	41,979	19,478	(89)	52	(37)	128,880
Intangible assets	<i>f</i>	10,831	20,432	4,283	1,510	(93)	1,417	36,963
Investments in associates		2,145	5,431	322	-	-	-	7,898
Deferred tax assets	<i>g</i>	-	6,431	9,013	3,546	4,164	7,710	23,154
Other non-current assets	<i>b-g</i>	13,532	1,582	228	(8,244)	(830)	(9,074)	6,268
Total non-current assets		93,968	75,855	33,324	(3,277)	3,293	16	203,163
Inventories	<i>b</i>	88,467	39,304	8,600	(1,130)	856	(274)	136,097
Trade and other receivables	<i>c</i>	69,449	20,431	22,615	-	19	19	112,514
Prepayments for current assets		13,951	4,346	19,299	(565)	(546)	(1,111)	36,485
Derivative financial instruments		-	-	-	863	-	863	863
Cash and cash equivalents		28,281	474	17,071	-	1	1	45,827
Total current assets		200,148	64,555	67,585	(832)	330	(502)	331,786
Total assets		294,116	140,410	100,909	(4,109)	3,623	(486)	534,949
Equity								
Share premium		108,964	37,321	25,438	-	(44,808)	(44,808)	126,915
Reserves	<i>h</i>	(27,336)	(2)	(2,892)	-	26,939	26,939	(3,291)
Retained deficit	<i>,h</i>	(186,156)	(210)	6,784	-	9,361	9,361	(170,221)
Equity attributable to shareholders		(104,528)	37,109	29,330	-	(8,508)	(8,508)	(46,597)
Minority interest		644	31,044	2,234	270	(1,999)	(1,729)	32,193
Total equity		(103,884)	68,153	31,564	270	(10,507)	(10,237)	(14,404)
Liabilities								
Loans and borrowings		202,309	-	-	(3,169)	65	(3,104)	199,205
Loans and borrowings-related parties		10,686	-	-	-	-	-	10,686
Employee benefits	<i>d</i>	61,491	13,754	22,586	(844)	15,748	14,904	112,735
Provisions	<i>e</i>	19,202	3,186	864	(3,943)	(271)	(4,214)	19,038
Other long term liabilities		3,440	-	4,232	3,854	7	3,861	11,533
Deferred tax liabilities	<i>g</i>	1,610	-	7,729	799	1,403	2,202	11,541
Total non-current liabilities		298,738	16,940	35,411	(2,459)	16,108	13,649	364,738
Loans and borrowings		24,117	30,674	6,608	-	-	-	61,399
Trade and other payables, including derivatives		45,007	21,428	11,106	(1,650)	-	(1,650)	93,878
Other liabilities		-	-	6,310	23,612	828	24,440	30,750
Derivative financial instruments		-	-	-	744	-	744	744
Advance Payments		-	-	5,035	-	-	-	5,035
Current taxes payable		1,397	1,643	1,513	768	(1,627)	(859)	3,694
Provisions	<i>e</i>	28,741	1,572	3,362	(24,550)	(2,023)	(26,573)	7,102
Total current liabilities		99,262	55,317	33,934	(1,920)	(1,978)	(3,898)	184,615
Total liabilities		398,000	72,257	69,345	(4,379)	14,130	9,751	549,353
Total equity and liabilities		294,116	140,410	100,909	(4,109)	3,623	(486)	534,949

4. Explanation of transition to IFRS (continued)**Combined balance sheet****31-Dec-05***In thousands of US Dollars*

		MHI US GAAP	TIMMINC O CAD GAAP	ALD IFRS	Presentation and disclosure	Recognition and measurement	Effect of transition to IFRS	IFRS
Assets								
Property, plant and equipment	<i>a</i>	61,699	41,787	18,560	25	(16,279)	(16,254)	105,792
Intangible assets	<i>f</i>	9,468	19,959	11,035	1,409	496	1,905	42,367
Investments in associates		2,176	9,102	456	-	-	-	11,734
Deferred tax assets	<i>g</i>	20,124	3,057	6,769	(11,823)	(1,488)	(13,311)	16,639
Other non-current assets	<i>b-g</i>	0	2,479	(0)	(1,880)	3,997	2,117	4,596
Total non-current assets		93,467	76,384	36,820	(12,269)	(13,274)	(25,543)	181,128
Inventories	<i>b</i>	109,054	32,807	11,883	(6,514)	6,102	(412)	153,332
Trade and other receivables	<i>c</i>	68,425	19,055	46,119	(2,765)	(2,824)	(5,589)	128,010
Derivative financial instruments		-	-	-	1,896	-	1,896	1,896
Prepayments for current assets		14,762	2,222	10,709	4,828	(1,300)	3,528	31,221
Cash and cash equivalents		19,602	2,133	27,939	643	-	643	50,317
Total current assets		211,843	56,217	96,650	(1,912)	1,978	66	364,776
Total assets		305,310	132,601	133,470	(14,181)	(11,296)	(25,477)	545,904
Equity								
Share premium		103,259	39,536	25,441	-	(39,105)	(39,105)	129,131
Reserves	<i>h</i>	(23,174)	1,192	(6,716)	-	25,105	25,105	(3,593)
Retained earnings	<i>h</i>	(157,594)	(7,333)	15,591	-	(4,011)	(4,011)	(153,347)
Equity attributable to equity holders of the parent		(77,509)	33,395	34,316	-	(18,011)	(18,011)	(27,809)
Minority interest		591	26,578	-	713	(8,898)	(8,185)	18,984
Total equity		(76,918)	59,973	34,316	713	(26,909)	(26,196)	(8,825)
Liabilities								
Loans and borrowings		191,741	3,747	-	3,689	103	3,792	199,280
Loans and borrowings- related parties		1,577	-	-	2,304	-	2,304	3,881
Employee benefits	<i>d</i>	57,711	14,438	20,763	(1,580)	14,153	12,573	105,485
Provisions	<i>e</i>	14,508	3,293	4,299	(6,999)	(610)	(7,609)	14,491
Other long term liabilities		3,213	-	15,673	(10,851)	(4)	(10,855)	8,031
Deferred tax liabilities	<i>g</i>	-	1,502	8,905	1,928	(1,773)	155	10,562
Total non-current liabilities		268,750	22,980	49,640	(11,509)	11,869	360	341,730
Loans and borrowings		24,958	23,645	1,156	(41,846)	(134)	(41,980)	7,779
Short term bank debt		-	-	-	41,749	-	41,749	41,749
Loan payable- related party		6,981	-	-	(1,521)	(3)	(1,524)	5,457
Trade and other payables		41,541	23,624	13,081	(1,430)	1,598	168	78,414
Trade and other payables- intergroup		422	-	-	(422)	-	(422)	-
Other liabilities		658	-	9,028	29,668	741	30,409	40,095
Derivative financial instruments		-	-	-	1,950	-	1,950	1,950
Advance Payments		-	-	18,952	-	-	-	18,952
Current taxes payable		13,303	44	1,806	(7,566)	129	(7,437)	7,716
Provisions	<i>e</i>	25,615	2,335	5,491	(23,967)	1,413	(22,554)	10,887
Total current liabilities		113,478	49,648	49,514	(3,385)	3,744	359	212,999
Total liabilities		382,228	72,628	99,154	(14,894)	15,613	719	554,729
Total equity and liabilities		305,310	132,601	133,470	(14,181)	(11,296)	(25,477)	545,904

4. Explanation of transition to IFRS (continued)

Notes to the reconciliation of equity

The impact on deferred tax of the adjustments described below is set out in note 12. The impact on equity of the adjustments described below is set out in the *Combined statement of changes in equity*.

Presentation and disclosure reclasses were made for the purposes of presentation of financial position and results in accordance with IAS 1 *Presentation of Financial Statements*. Major effect is represented by reclassification of \$3,169 and \$11,247 of loan acquisition costs from Loans and borrowings to Other non-current assets as at 1 January and 31 December 2005, respectively.

- (a) *Property, Plant & Equipment*. IFRS requires entities to use a component approach for reviewing the useful lives of assets. This methodology is not required under US GAAP. The application of this methodology led to changes in depreciation calculation. The effect of these changes is to increase *Property, plant and equipment* by \$1,621 and \$1,671 at 1 January 2005 and 31 December 2005, respectively, and to increase *Cost of sales* by \$354, for the year ended 31 December 2005. In addition, IFRS requires entities to translate fixed assets using the historical rate. Canadian GAAP allows for translation of fixed assets at a monetary rate. The effects of this change are to lower property, plant and equipment by \$1,569 at 1 January 2005 and \$1,342 at 31 December 2005. Finally, IFRS requires an impairment analysis to be performed using a value in use methodology. This methodology differs from Canadian GAAP in that it requires the determination of cash generating units and it requires that the cash flows for valuation be discounted. The application of this methodology resulted in an impairment in the which changed the balance sheet by \$16,608 at 31 December 2005 to lower the property, plant and equipment values with the corresponding impact of \$15,953 being shown in the restructuring and asset impairment expense.

The effect of changes in Presentation and disclosure resulted in a decrease of \$89 and an increase of \$25 to *Property, plant and equipment* at 1 January 2005 and 31 December 2005, respectively.

- (b) *Inventories*. The Company made adjustments to inventories under former GAAP in order to comply with IAS 2. As a result of the application of these changes, *Inventories* increased by \$856 and \$6,102 at 1 January 2005 and 31 December 2005, respectively.

The effect of changes in Presentation and disclosure resulted in a decrease of \$1,130 and \$6,514 to *Inventories* at 1 January 2005 and 31 December 2005, respectively.

- (c) *Trade and other receivables*. The Company made adjustments to receivables under former GAAP in order to comply with revenue recognition principles under IFRS. As a result of the application of these changes, *Trade and other receivables* increased by \$19 at 1 January 2005 and decreased by \$2,824 at 31 December 2005.

The effect of changes in Presentation and disclosure resulted in a decrease of \$2,765 to *Trade and other receivables* at 31 December 2005.

- (d) *Employee benefits*. In accordance with IFRS 1, the Company elected to eliminate the cumulative actuarial gains and losses existing at 1 January 2005 for all plans which amounted to \$28,427. This transition adjustment affected the opening balance sheet, but also caused changes in the pension expense for future years. The difference between the US GAAP and Canadian GAAP pension expense and the IFRS pension expense are primarily due to this IFRS 1 election. The effects are to increase liabilities for *Employee benefits* by \$15,748 at 1 January 2005 and by \$14,153 at 31 December 2005 and to decrease *Cost of sales* by \$344 and *Selling, general and administrative expenses* by \$1,358 for the year ended 31 December 2005.

The effect of changes in Presentation and disclosure resulted in a decrease of \$844 and \$1,580 to *Employee Benefits* at 1 January 2005 and 31 December 2005, respectively. These changes primarily relate to the treatment of pension assets in the balance sheet and result in a decrease in other non-current assets by \$916 and \$1,468 at 1 January 2005 and 31 December 2005.

4. Explanation of transition to IFRS (continued)**Notes to the reconciliation of equity**

(e) *Environmental.* Environmental obligations exist to restore certain sites for the effect of the Company's U.S. operations. These obligations will be settled over periods in excess of one year and therefore are considered long-term. US GAAP does not allow discounting of environmental liabilities. However, IFRS requires that long-term liabilities, including environmental, are discounted over the period in which they are expected to be settled. In accordance with IFRS, provisions in respect of the estimate of such costs have been recalculated. The effects are to decrease *Provisions* (non-current and current in total) by \$1,450 at 1 January 2005, to increase the account by \$803 at 31 December 2005; to increase *Other non-current assets* by \$86 at 1 January 2005, by \$87 at 31 December 2005; and to increase *Finance expense* by \$10 thousand for the period ended 31 December 2005.

The effect of changes in Presentation and disclosure resulted in decreases of \$29,334 and \$30,966 thousand to environmental *Provisions* (current and long-term) at 1 January 2005 and 31 December 2005, respectively. These changes primarily relate to the appropriate split of provisions and other current liabilities.

(f) *Intangible assets* IFRS 1 allows entities to maintain the methodology used for purchase accounting for acquisitions that occurred prior to the transition date. Timminco purchased a subsidiary in 2004 and used the provisions of purchase accounting prescribed by Canadian GAAP. The transition adjustments related to the conversion to IFRS 1 had an impact on the purchase accounting for this subsidiary. The adjustments impact both the treatment of goodwill and intangible assets. The effects are to decrease *Intangible assets* by \$93 at 1 January 2005 and increasing this balance by \$496 at 31 December 2005.

The effect of changes in Presentation and disclosure resulted in an increase of \$1,510 and \$1,409 thousand to Intangible assets at 1 January 2005 and 31 December 2005, respectively.

(g) The above changes (decreased) increased the deferred tax asset as follows:

<i>In thousands of US Dollars</i>	<i>Note</i>	1 January 2005	31 December 2005
Property, plant and equipment		-	(6,509)
Intangible assets		(2,011)	(2,075)
Employee benefits	<i>b</i>	6,175	7,199
Charge to income statement		-	(103)
Increase in deferred tax asset		<u>4,164</u>	<u>(1,488)</u>

<i>In thousands of US Dollars</i>	<i>Note</i>	1 January 2005	31 December 2005
Employee benefits		1,133	(1,894)
Property, plant and equipment	<i>a</i>	270	236
Charge to income statement		-	(115)
Increase (decrease) in deferred tax liability		<u>1,403</u>	<u>(1,773)</u>

The effect on the income statement for the year ended 31 December 2005 was to increase the previously reported tax charge for the period by \$6,023.

4. Explanation of transition to IFRS (continued)

(h) The effect of the above adjustments on equity is as follows:

<i>In thousands of US Dollars</i>	<i>Note</i>	1 January 2005	31 December 2005
Property, plant and equipment	<i>a</i>	2,264	18,435
Inventory	<i>b</i>	(875)	(3,121)
Employee benefits	<i>c</i>	17,458	15,068
Environmental remediation	<i>d</i>	(4,305)	(2,380)
Intangible assets	<i>e</i>	104	(496)
Deferred tax	<i>f</i>	853	(743)
Other		(5,262)	(567)
Total adjustment to equity		<u>(10,237)</u>	<u>(26,196)</u>
Attributable to:			
Equity holders of the parent		(8,508)	(18,011)
Minority interest		<u>(1,729)</u>	<u>(8,185)</u>
		<u>(10,237)</u>	<u>(26,196)</u>

As allowed under IFRS 1, the Company has chosen the first-time adoption exemption from IAS 21 regarding its foreign currency translation differences. In accordance with this exemption, the Company reset the cumulative translation adjustments for all its non-IFRS foreign locations to zero at 1 January 2005, which resulted in an adjustment to foreign currency translation of \$1,491 at 1 January 2005.

4. Explanation of transition to IFRS (continued)**Reconciliation of profit for 2005**

		MHI US GAAP	TIMMINCO CAD GAAP	ALD IFRS	Presentation and disclosure	Recognition and measurement	Effect of transition to IFRS	AMG IFRS
Revenue	8	630,604	152,290	127,823	1	(4,006)	(4,005)	906,711
Cost of sales		504,770	143,026	90,892	(3,225)	(6,629)	(9,854)	728,834
Gross profit		125,834	9,264	36,931	3,226	2,623	5,849	177,877
Selling, general, and administrative expenses		60,790	13,465	19,311	8,411	(1,882)	6,529	100,095
Restructuring and asset impairment expense	13,26	1,215	3,793	-	-	15,953	15,953	20,961
Environmental Expenses	26	-	141	-	58	-	58	199
Other expenses		2,488	-	5,212	(4,712)	-	(4,712)	2,988
Other income	9	(3,759)	(74)	(3,493)	988	(75)	913	(6,413)
Operating profit		65,100	(8,062)	15,901	(1,519)	(11,373)	(12,892)	60,047
Loss on extinguishment of debt	21	10,234	-	-	-	-	-	10,234
Interest expenses		28,920	2,494	2,269	(579)	103	(476)	33,207
Interest income		(974)	9	(947)	(894)	(1,162)	(2,056)	(3,968)
Net finance costs	11	38,180	2,503	1,322	(1,473)	(1,059)	(2,532)	39,473
Share of profit of associates	15	-	430	(32)	49	-	49	447
Profit before income tax		26,920	(10,135)	14,547	3	(10,314)	(10,311)	21,021
Income tax expense	12	6,250	2,914	5,740	-	1,429	1,429	16,332
Profit for the period		20,670	(13,048)	8,807	3	(11,743)	(11,740)	4,689
Attributable to:								
Equity holders of the Company		20,658	(7,105)	8,807	(535)	(4,951)	(5,656)	16,874
Minority interest	12	(5,943)	(5,943)	-	536	(6,790)	(6,084)	(12,185)
Profit for the period		20,670	(13,048)	8,807	1	(11,741)	(11,740)	4,689

Explanation of material adjustments to the cash flow statement for 2005

There were no material adjustments to the cash flows statement for IFRS other than those required by the adjustments posted to the balance sheet and income statement.

5. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

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

(ii) Intangible assets

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

(iii) Inventory

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

(iv) Trade and other receivables

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

(v) Derivatives

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate caps 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.

(vi) Non-derivative financial liabilities

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

(vii) Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate which is generally based on government bonds. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

6. Segment reporting

The primary segment reporting format is determined to be business segments as the Company's risks and rates of return are affected primarily by differences in the products and services it provides. Secondary information is reported geographically.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Advanced Materials Unit – This unit manufactures and sells high-quality specialty metals, alloys and metallic chemicals which are essential to the production of high-performance aluminium and titanium alloys, superalloys, steel and certain non-metallic materials for various applications in the aerospace, power supply, automotive, petrochemical processing and telecommunications industries. It also manufactures and supplies engineered magnesium extrusion. These products are used in a broad range of specialized industrial applications in the aluminum, steel, lead, and automotive industries. These products are used as components in sporting goods, tools, luggage frames, storage containers, aerospace and nuclear applications. This unit operates in the U.S., Canada, Brazil, the United Kingdom, Germany and France.

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

The Company's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in the geographical segments are based on the geographical location of its customers.

Year Ended 31 December 2006

	Advanced Materials	Engineering Systems	Other and Eliminations	Total
Revenue				
Revenue from external customers	\$760,853	\$166,955	-	\$927,808
Segment Result				
Operating Profit	13,497	24,586	-	38,038
Interest income	1,707	2,443	(1,048)	3,102
Interest expense	(34,541)	(3,066)	1,048	(36,559)
Share of (loss) profit of associates	(2,516)	144	-	(2,372)
Profit (loss) before income tax	(20,699)	23,395	-	2,696
Income tax expense (benefit)	(543)	8,926	-	8,383
Profit for period	(20,156)	14,469	-	(5,687)
Balance Sheet				
Segment assets	407,727	163,248	(13,640)	557,335
Investment in associates	11,350	1,953	-	13,303
Total assets	419,077	165,201	(13,640)	570,638
Segment liabilities	397,883	97,512	(13,640)	481,755
Employee benefits	69,920	24,325	-	94,245
Provisions	13,438	4,941	-	18,379
Total liabilities	481,241	126,778	(13,640)	594,379
Other Information				
Capital expenditures – Tangible Assets	16,249	6,665	-	22,914
Capital expenditures – Intangible Assets	-	1,378	-	1,378
Depreciation	13,927	4,602	-	18,529
Impairment losses on intangible assets and property, plant, and equipment	12,908	-	-	12,908

6. Segment reporting (continued)**Year Ended 31December 2005**

	Advanced Materials	Engineering Systems	Other and Eliminations	Total
Revenue				
Revenue from external customers	\$778,889	\$127,822	-	\$906,711
Segment Result				
Operating Profit	45,683	14,364	-	60,047
Interest Income	1,312	947	-	2,259
Interest Expense	(30,939)	(2,268)	-	(33,207)
Share of profit of associates	415	32	-	447
Profit (loss) before income tax	6,474	14,547	-	21,021
Income tax expense (benefit)	10,592	5,740	-	16,332
Profit for period	(4,118)	8,807	-	4,689
Balance Sheet				
Segment assets	401,499	133,014	(343)	534,170
Investment in associates	11,278	456	-	11,734
Total assets	412,777	133,470	(343)	545,904
Segment liabilities	349,981	74,228	(343)	423,866
Employee benefits	84,722	20,763	-	105,485
Provisions	21,215	4,163	-	25,378
Total liabilities	455,918	99,154	(343)	554,729
Capital expenditures – Tangible Assets	9,715	2,906	-	12,621
Capital expenditures – Intangible Assets	-	1,038	-	1,038
Depreciation	14,904	3,368	-	18,272
Impairment losses on intangible assets and property, plant, and equipment	15,995	-	-	15,995

6. Segment reporting (continued)

Geographical Segments

Year Ended

31 December 2006

	Europe	North America	Asia	South America	Africa, Australia and Other	Total
Revenue						
Revenue from external customers	\$382,473	\$354,827	\$126,535	\$38,779	\$25,163	\$927,777
Commission Income	-	-	-	-	31	31
Total Segment Revenue	382,473	354,827	126,535	38,779	25,194	927,808

Balance Sheet

Investment in associates	5,363	7,872	-	68	-	13,303
Other segment assets	372,839	219,916	-	39,279	(74,699)	557,335
Total assets	378,202	227,788	-	39,347	(74,699)	570,638

Other Information

Capital expenditure – Tangible Assets	12,899	8,007	-	2,008	-	22,914
Capital expenditure – Intangible Assets	1,378	-	-	-	-	1,378

6. Segment reporting (continued)**Geographical Segments****Year Ended****31 December 2005**

	Europe	North America	Asia	South America	Africa, Australia and Other	Total
Revenue						
Revenue from external customers	\$343,402	\$393,537	\$109,544	\$39,464	\$20,384	\$906,331
Commission Income	-	-	-	-	380	380
Total Segment Revenue	343,402	393,537	109,544	39,464	20,764	906,711

Balance Sheet

Investment in associates	2,632	9,102	-	-	-	11,734
Other segment assets	304,633	235,950	-	33,616	(40,029)	534,170
Total assets	307,265	245,052	-	33,616	(40,029)	545,904

Other Information

Capital expenditure – Fixed Assets	7,330	3,460	-	1,831	-	12,621
Capital expenditure – Intangible Assets	1,038	-	-	-	-	1,038

No single customer accounts for more than 5% of the total revenue of the Company.

7. Acquisitions of associates**Acquisition of FNE**

On 7 June 2006, GfE made a payment, valued at approximately \$2,700, to purchase a 24.9% share of ownership in FNE Forschungsinstitut für Nichteisen-Metalle Freiberg GmbH (“FNE”) from its current family ownership. The purchase agreement includes a call option under which GfE is entitled to purchase the remaining shares for a defined purchase price within the timeframe from 1 January 2007 through 1 January 2008. Additionally, the seller is entitled to a put option under which the purchase of the shares by GfE can be requested for the same consideration in the timeframe from 1 February 2008 through 31 March 2008. The purchase price for 100% of FNE, according to the purchase agreement, is approximately \$6,268. The payment made has been recorded as an investment in associates of \$1,650 and an option value of \$1,078. FNE has state-of-the-art production capabilities for rotatable targets, a key to large area coating requirements. GfE intends to strengthen its position in the growing large area coating materials market using the technological competence of FNE regarding research and development and production. As of 31 December 2006, this has been accounted for as an equity investment. Negative goodwill in the amount of \$164 was recognised on this transaction (Note 9).

7. Acquisitions of associates (continued)**Acquisition of ABS**

On 9 October 2006, ALD GmbH made an investment of approximately \$1,420 to purchase 19.9% ownership in ABS Apparate und Behälterbau GmbH ("ABS") from its current ownership. ABS is a high performance apparatus engineering enterprise with experience building apparatuses, heat-transfer agents and pressure and storage vessels. As of 31 December 2006, this has been accounted for as an equity investment.

Acquisition of Fundo Wheels

Fundo Wheels AS ("Fundo"), located in Hoyanger, Norway, is an original equipment manufacturer of cast aluminium wheels for high end European car manufacturers. On March 22, 2004, Timminco indirectly acquired a 24.4% interest in Fundo Wheels AS ("Fundo"), for \$4,706.

To complete the acquisition, Timminco acquired 100% of the shares of a Norwegian Company, Nor-Wheels AS ("Nor-Wheels"), which held 24.4% of the shares of Fundo. Nor-Wheels has become a subsidiary of Timminco and has assumed Timminco's rights and obligations under the Call Option and Fees Agreement and other existing agreements with the controlling shareholder of Fundo, which is the Community of Hoyanger (the "Community"). Under these agreements, Nor-Wheels holds a call option to purchase the Community's Fundo shares no sooner than January 1, 2008, on the satisfaction of certain conditions. As at 31 December 2006, the Community owns approximately 52.9% of Fundo. Beginning January 1, 2008, the Community may exercise a put option requiring Nor-Wheels to purchase the Community's shares, at book value determined on the date of exercise. The Corporation accounts for the Fundo investment under the equity method as it does not have control over Fundo and neither Nor-Wheels nor the Community can exercise the call or the put option until 1 January 2008. The acquisition of the equity interest did not create any purchase discrepancy.

On May 25, 2005, Timminco acquired an additional 726 shares of Fundo from an unrelated third party. The purchase price was satisfied by the issuance of 5,750,000 common shares of Timminco from treasury, valued at \$3,488. The value was determined using the weighted average share price for the two days before and after the transaction announcement. The acquisition of the equity interest did not create any purchase discrepancy. As a result of the transaction, Timminco's ownership interest increased from 24.4% to 47.1% of Fundo. However, it still does not have control over the entity.

In December 2006, Timminco acquired an additional 264 shares of Fundo from treasury for \$933. The Community also invested in Fundo such that Timminco's ownership interest remained at 47.1%. The acquisition of the interest did not create any purchase discrepancy.

8. Revenue

	Combined	
	2006	2005
Sales of goods	927,777	906,331
Rendering of services (commissions)	31	380
Total revenues	927,808	906,711

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

	2006	2005
Contract revenue recognised as revenue in the period	120,139	92,143
Payments Received	102,567	73,335
Gross Amount due from customers for contract work	17,572	18,808

9. Other income

	<i>Note</i>	2006	2005
MACTEC settlement agreement	iv	-	3,710
Release of unused provisions	ii	232	531
Negative goodwill	i	164	-
Other miscellaneous income	iii	868	2,172
		1,264	6,413

In 2006, Other income of \$1,264 consists of: (i) negative goodwill of \$164 associated with the acquisition of FNE (See footnote 7); (ii) the release of unused provisions in the amount of \$232 (iii) other miscellaneous income of \$868 which includes (payroll processing for other companies) and license income earned of \$443. In 2005, Other income of \$6,413 consists of: (iv.) a \$2,500 settlement and \$1,210 in waived payables per legal agreement in 2005 for disputed services with MACTEC Engineering and Consulting (MACTEC) whereby MACTEC was to furnish engineering services and equipment in connection with the proposed design of a dry scrubber system at the Company's plant in Cambridge, Ohio; (ii) release of provisions of \$531; (iii) other miscellaneous income of \$2,172 is mainly attributable to services and royalties earned of \$443 and the elimination of the liability to a related party.

10. Personnel expenses

	<i>Note</i>	2006	2005
Wages and salaries		105,236	99,527
Contributions to defined contribution plans		4,721	2,457
Expenses related to defined benefit plans	24	8,087	7,946
Gain from curtailment of pension	24	(15,159)	-
Social security and other benefits		17,715	17,604
Share-based payment compensation	25	386	282
		120,986	127,816

Included in the following lines of the combined income statement:

Cost of goods sold		83,486	78,098
Selling, general and administrative costs	25	52,659	49,718
Pension curtailment gain		(15,159)	-
		120,986	127,816

11. Finance income and expense**Recognised in profit or loss**

	2006	2005
Interest income on bank deposits	1,519	1,948
Interest income on related party loans	1,583	311
Foreign Exchange Income	442	1,709
Finance income	3,544	3,968
Amortization of loan issuance costs	(2,383)	(1,631)
Amortization of rate cap instrument	(116)	(30)
Finance lease expense	(2)	(6)
Interest expense on loans and borrowings	(34,058)	(31,540)
Finance Expense	(36,559)	(33,207)
Extinguishment of debt	-	(10,234)
Net finance income and expense	(33,015)	(39,473)

12. Income tax

Significant components of income tax expense for the years ended:

	2006	2005
Current tax expense		
Current period	11,860	12,136
Adjustment for prior periods	(33)	(256)
Total current taxation charges for the year	11,827	11,880
Deferred tax expense		
Origination and reversal of temporary differences	(5,650)	(817)
Changes in previously unrecognised tax losses, tax credits and unrecognised temporary differences	3,789	4,731
Adjustment for prior periods	(1,583)	538
Total deferred taxation/(benefit) for the year	(3,444)	4,452
Total income tax expense reported in the income statement	8,383	16,332

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

	2006	2005
Profit before income tax	2,696	21,021
Income tax using the Company's weighted average tax rate	5,500	10,279
Foreign dividend repatriations	496	382
Non-deductible expenses	214	658
Recognition of previously unrecognised tax losses, tax credits and temporary differences of a prior year	(9,379)	(1,316)
Current year losses for which no deferred tax asset was recognised and changes in unrecognised temporary differences	13,168	6,047
Under (over) provided in prior periods	(1,616)	282
	8,383	16,332

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 combined accounts. Some entities have losses for which no deferred tax assets have been recognised.

During the years ended 31 December 2006 and 2005, certain income tax benefits related to previously unrecognised tax losses and temporary differences of a German subsidiary were recognised. In total, \$9.3 million and \$1.3 million were recognised in 2006 and 2005, respectively, by applying \$4.4 million (2006) and \$1.3 million (2005) to the current tax liability. Additionally, a net deferred tax asset of \$4.9 million was recognised in 2006 whereas no deferred tax asset was recognised in 2005. The income tax benefits were recognised since we believe it is probable the amounts will be realised.

12. Income tax (continued)

The main factors considered were improved profitability, higher forecast profitability and the indefinite carryforward period of the tax losses. After accessing these factors, we have determined that it is more likely than not that the deferred tax benefit of the tax losses and temporary differences will be realised.

Deferred tax assets and liabilities

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

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

At 31 December 2006, the Company had tax loss carry-forwards of \$126.2 million from U.S. operations and \$39.4 million from Canadian operations, which expire through 2026. There were also tax loss carry-forwards of \$26.1 million from German operations, \$3.2 million from Brazilian operations and \$1.2 million from Belgium operations, which do not expire.

Recognised deferred tax assets/(liabilities)

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

	<i>Combined Balance Sheet</i>				<i>Combined Income Statement</i>	
	Assets		Liabilities			
	2006	2005	2006	2005	2006	2005
Inventories	21,375	16,795	170	368	(2,230)	(3,803)
Long-Term Contracts	3,310	1,315	34,071	25,503	2,953	6,576
Prepays and other current assets	2,501	2,143	2,039	1,065	597	(612)
Property, plant and equipment	1,015	706	4,390	5,968	(2,633)	1,983
Deferred charges and noncurrent assets	57	69	2,182	2,102	57	13
Accruals and reserves	2,630	2,661	529	1,005	(302)	(2,144)
Environmental liabilities	366	-	-	31	(127)	52
Retirement benefits	10,715	12,472	12	792	1,343	445
Tax loss and tax credit carryforwards	10,166	6,750	-	-	(3,102)	1,942
Tax assets/liabilities	52,135	42,911	43,393	36,834		
Set off of tax	(30,404)	(26,272)	(30,404)	(26,272)		
Net tax assets/liabilities	21,731	16,639	12,989	10,562		
Deferred income tax (benefit) provision					(3,444)	4,452

12. Income tax (continued)**Unrecognised deferred tax assets/(liabilities)**

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

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

	Assets		Liabilities	
	2006	2005	2006	2005
Inventories	1,554	688	104	292
Prepays and other current assets	24	50	119	-
Property, plant and equipment	8,191	6,301	2,054	3,223
Accruals and reserves	3,784	4,118	13	180
Deferred charges and noncurrent assets	240	363	-	-
Environmental liabilities	3,999	7,341	-	-
Retirement benefits	13,843	15,752	194	396
Tax loss and tax credit carryforwards	62,661	53,873	-	-
Tax assets/(liabilities)	94,296	88,486	2,484	4,091
Set off of tax	(2,484)	(4,091)	(2,484)	(4,091)
Net tax assets/(liabilities)	91,812	84,395	-	-

13. Property, plant and equipment

	Land and buildings	Machinery and Equipment	Furniture and Fixtures	Construct- ion progress	Finance Leases	Total
Cost						
Balance at 1 January 2005	53,109	268,879	17,322	2,069	805	342,184
Additions	290	4,812	810	6,709	-	12,621
Retirements and Transfers	1,996	(1,701)	(2,329)	(4,842)	-	(6,876)
Effect of movements in exchange rates	(3,688)	(3,841)	(1,530)	(140)	(60)	(9,259)
Balance at 31 December 2005	51,707	268,149	14,273	3,796	745	338,670
Balance at 1 January 2006	51,707	268,149	14,273	3,796	745	338,670
Additions	1,406	9,386	1,101	11,020	-	22,913
Retirements and Transfers	731	(5,611)	(485)	(7,152)	(501)	(13,018)
Effect of movements in exchange rates	2,874	5,980	1,055	36	28	9,973
Balance at 31 December 2006	56,718	277,904	15,944	7,700	272	358,538
Depreciation and impairment losses						
Balance at 1 January 2005	(22,784)	(175,771)	(12,531)	-	(289)	(211,375)
Depreciation for the year	(2,120)	(13,810)	(1,301)	-	(51)	(17,282)
Retirements and Transfers	-	4,682	2,190	-	-	6,872
Impairments	(11)	(15,984)	-	-	-	(15,995)
Effect of movements in exchange rates	1,913	1,809	1,170	-	10	4,902
Balance at 31 December 2005	(23,002)	(199,074)	(10,472)	-	(330)	(232,878)
Balance at 1 January 2006	(23,002)	(199,074)	(10,472)	-	(330)	(232,878)
Depreciation for the year	(1,920)	(13,956)	(1,446)	-	(20)	(17,342)
Retirements and Transfers	633	9,216	451	-	132	10,432
Impairments	(549)	(9,665)	(18)	-	-	(10,232)
Effect of movements in exchange rates	(1,592)	(4,848)	(816)	-	(6)	(7,262)
Balance at 31 December 2006	(26,430)	(218,327)	(12,301)	-	(224)	(257,282)
Carrying amounts						
At 1 January 2005	30,325	93,108	4,791	2,069	516	130,809
At 31 December 2005	28,705	69,075	3,801	3,796	415	105,792
At 1 January 2006	28,705	69,075	3,801	3,796	415	105,792
At 31 December 2006	30,288	59,577	3,643	7,700	48	101,256

Sale of equipment

Certain equipment was sold in the years ended 31 December 2006 and 2005. In those years, the Company received proceeds of \$420 and \$191, respectively. The proceeds were less than the book value of the assets and as such, losses on disposal of equipment were recorded in the amount of \$2,617 and \$692 for the years ended 31 December 2006 and 2005, respectively.

Impairment loss

Impairment losses were recorded at certain locations in 2005 and 2006 due to the discontinued use of certain assets. In 2005, Metallurg recorded \$42 for an asset write-down in New Jersey. The charges were in response to the shutdown of one line of production in New Jersey. A write-down of \$41 was recorded in 2006 related to the relocation of the Corporate headquarters.

In 2006, fixed asset impairment charges of \$932 were recorded at a subsidiary in New Jersey where Metallurg effectively shut down all plant operations. The charges relate to the fixed assets of the plant site that ceased functioning and are presumed to have no resale value.

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

13. Property, plant and equipment (continued)

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

In the years ended 31 December 2006 and 2005, Timminco recorded fixed asset impairment charges of \$8,863 and \$15,953, respectively for the values of fixed assets at certain facilities that were no longer recoverable. See further discussion of impairment assumptions as discussed in note 14.

The asset impairment charges, totalling \$10,232 and \$15,995 in 2006 and 2005, respectively, are included in the Restructuring and asset impairment expense line of the combined income statement.

Leased plant and machinery

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

Security

At 31 December 2006 properties with a carrying amount of \$86,163 (2005: \$88,429) are pledged as collateral to secure certain bank loans of subsidiaries.

Property, plant and equipment under construction

During the year ended 31 December 2006, the subsidiaries of the Company embarked upon several different manufacturing equipment upgrades which are meant to improve efficiency and expand capacity. Costs incurred up to the reporting date, which are included in construction in progress totalled \$7,700 (2005: \$3,796).

14. Intangible assets

	Goodwill	Other intangible- assets	Total
Cost			
Balance at 1 January 2005	36,090	13,981	50,071
Additions	-	1,038	1,038
Disposals	-	(347)	(347)
Effect of movements in exchange rates	(1,810)	(833)	(2,643)
Balance at 31 December 2005	34,280	13,839	48,119
Balance at 1 January 2006	34,280	13,839	48,119
Additions	-	1,379	1,379
Disposals	-	-	-
Effect of movements in exchange rates	1,836	906	2,742
Balance at 31 December 2006	36,116	16,124	52,240
Amortization and impairment			
Balance at 1 January 2005	-	(5,845)	(5,845)
Amortization	-	(900)	(900)
Disposals	-	325	325
Effect of movements in exchange rates	-	668	668
Balance at 31 December 2005	-	(5,752)	(5,752)
Balance at 1 January 2006	-	(5,752)	(5,752)
Amortization	-	(1,187)	(1,187)
Disposals	-	-	-
Effect of movements in exchange rates	-	(403)	(403)
Balance at 31 December 2006	-	(7,342)	(7,342)

14. Intangible assets (continued)**Carrying amounts**

At 1 January 2005	36,090	8,136	44,226
At 31 December 2005	34,280	8,087	42,367
At 1 January 2006	34,280	8,087	42,367
At 31 December 2006	36,116	8,782	44,898

Intangible assets represent goodwill, intangibles with indefinite lives as well as licenses and industrial rights. For goodwill and the indefinite-lived assets (carrying amounts of \$3,991 and \$3,982 as of 31 December 2006 and 2005, respectively), there is no amortization recorded on these assets and instead, impairment tests are performed. The intangibles amount represents a patent bought and used by a Canadian subsidiary related to a manufacturing process. This patent was deemed to have an indefinite life in accordance with IAS 38 as the patent has no expiration and the Company intends to use this patented process for the foreseeable future. Further evidence is provided through the fact that the process will not be adapted due to competition and the industry is growing.

Impairment testing for cash-generating units containing goodwill or intangible assets with indefinite lives

For the purpose of impairment testing, goodwill and indefinite-lived intangible assets are allocated to the Company's operating divisions which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes.

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

	2006	2005
Sudamin cash-generating unit (France)	10,440	9,367
LSM cash-generating unit (UK)	1,510	1,510
Timminco cash-generating unit goodwill	16,431	16,464
ALD cash-generating unit	7,735	6,939
Goodwill at cash-generating units	36,116	34,280
Intangible assets with indefinite lives Timminco cash-generating unit	3,991	3,982
Total goodwill and intangibles with indefinite lives	40,107	38,262

Key assumptions

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

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

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

Discount rates – Discount rates reflect management's estimate of risks specific to each unit.

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

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

14. Intangible assets (continued)

For the impairment tests for Sudamin, LSM, Timminco and ALD Groups cash-generating units the recoverable amounts are the higher of the fair value less costs to sell and the value in use. The fair values less costs to sell were determined using the discounted cash flow method. The carrying amounts of the Metallurg and ALD units were determined to be lower than their recoverable amounts and impairment losses were not recognised. However, the Timminco cash-generating unit was impaired in 2005 and 2006 and Timminco recorded an impairment charge of \$12,908 and \$15,995 in 2006 and 2005, respectively.

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

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 2% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry in France.
- Revenue was projected at about \$73,235 thousand in the first year of the business plan. The anticipated annual revenue growth included in the cash flow projections was about 13.3 percent for the year 2007. A decline of approximately 0.4 percent and a growth of approximately 0.8 percent in revenues were projected for the years 2008 and 2009, respectively. Management plans to achieve annual revenue of \$73,433 thousand by the third year of the business plan.
- Discount rates of 8.41 percent and 8.18 percent were applied in determining the recoverable amount of the unit for the years ended 31 December 2006 and 2005, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.

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

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 2% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry in the UK.
- Revenue was projected at about \$272,805 thousand in the first year of the business plan. The anticipated annual revenue growth included in the cash flow projections was about 12.6 percent for the year 2007. Growth of approximately 3.1 percent was projected for the years 2008 and 2009. Management plans to achieve annual revenue of \$289,732 thousand by the third year of the business plan.
- Discount rates of 9.28 percent and 8.87 percent were applied in determining the recoverable amount of the unit for the years ended 31 December 2006 and 2005, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.

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

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 2% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry in the UK.
- Revenue was projected at about \$206,155 in the first year of the business plan. The anticipated annual revenue growth included in the cash flow projections was about 17.0 percent for the year 2007. Growth of approximately 33.5 and 11.9 percent in revenues was projected for the years 2008 and 2009, respectively. Management plans to achieve annual revenue of \$307,988 by the third year of the business plan.
- Discount rates of 12.26 percent and 11.16 percent were applied in determining the recoverable amount of the unit for the years ended 31 December 2006 and 2005, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.

14. Intangible assets (continued)

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

- Cash flows were projected based on actual operating results and the 3-year business plan, which covers the next three calendar years following the impairment test date
- The growth rate of 2% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry.
- Revenue was projected at about \$44,593 in the first year of the business plan. The anticipated annual revenue growth included in the cash flow projections was about 62.8 percent for the year 2007. A growth of approximately 2.3 and a decline of approximately 0.1 percent in revenues was projected for the years 2008 and 2009, respectively. Management plans to achieve annual revenue of \$45,553 by the third year of the business plan.
- Discount rates of 6.00 percent and 6.00 percent were applied in determining the recoverable amount of the unit for the years ended 31 December 2006 and 2005, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.

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

Impairment tests for LSM's 25% equity investment in Bostlan, an entity located in Spain, were based on its value in use. The carrying amounts of this individual asset as of 31 December 2006 and 2005 were \$2,222 and \$2,159, respectively. The carrying amounts were determined to be higher than the investment's recoverable amounts and impairment loss of \$693 was recognised for the year ended 31 December 2006. The impairment was recognised in Restructuring charges and asset impairment line in profit and loss.

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

- Cash flows were projected based on actual operating results and the 3-year business plan, covering the 2007, 2008 and 2009 fiscal years.
- The growth rate of 2% was used to extrapolate cash flow projections beyond the period covered by the most recent budgets. Management believes that this growth rate does not exceed the long-term average growth rate for the metallurgical industry in Spain.
- Revenue was projected at about \$26,350 in the first year of the business plan. The anticipated annual revenue decline included in the cash flow projections was about 13.6 percent for the year 2007. A growth of 5.0 percent in revenues was projected for the years 2008 and 2009. Management plans to achieve annual revenue of \$29,051 by the third year of the business plan.
- Discount rate of 7.32 percent was applied in determining the recoverable amount of the asset for the years ended 31 December 2006 and 2005, respectively. The discount rates were derived from a group of comparable companies (peer group) and have been compared to external advisor reports for reasonableness.
- The main shareholder of Bostlan tendered an offer to LSM in 2005 in order to buy the shares that LSM holds. This offer was also considered in determining the fair value.

15. Associates

The following represent the associates of the Company that are presented in this combined financial information:

NAME	COUNTRY OF INCORPORATION	PERCENT. HELD (DIRECTLY OR INDIRECTLY) BY COMPANY
ALD Holcroft Vacuum Technologica Co., Inc.	United States	50
Bostlan S.A.	Spain	25
EsteR-Technologie GmbH	Germany	50
FNE Forschungsinstitut für Nichteisen-Metalle Freiberg GmbH	Germany	24.9*
Fremat GmbH & Co KG	Germany	24.9*
Fundo Wheels AS	Norway	25.6
Zentrum für Material- und Umwelttechnik GmbH	Germany	24.9*

* - All of these entities are presented as FNE Forschungsinstitut für Nichteisen-Metalle Freiberg GmbH in the following table.

The Company's share of (loss) profit in its associates for 2006 was (\$2,372) and for 2005 was \$447.

On 7 June 2006, GfE made a payment, valued at approximately \$2,700, to purchase a 24.9% share of ownership in FNE Forschungsinstitut für Nichteisen-Metalle Freiberg GmbH ("FNE") from its current family ownership. The purchase agreement includes a call option under which GfE is entitled to purchase the remaining shares for a defined purchase price within the timeframe from 1 January 2007 through 1 January 2008. Additionally, the seller is entitled to a put option under which the purchase of the shares by GfE can be requested for the same consideration in the timeframe from 1 February 2008 through 31 March 2008. The purchase price for 100% of FNE, according to the purchase agreement, is approximately \$6,268. The payment made has been recorded as an investment in associates of \$1,561 and an option value of \$1,078. FNE has state-of-the-art production capabilities for rotatable targets, a key to large area coating requirements. GfE intends to strengthen its position in the growing large area coating materials market using the technological competence of FNE regarding research and development and production. As of 31 December 2006, this has been accounted for as an equity investment.

In October, 2006, ALD GmbH made an investment of approximately \$1,451 to purchase 19.9% ownership in ABS Apparate und Behälterbau GmbH from its current ownership. As of 31 December 2006, this has been accounted for as an equity investment.

Acquisition of Fundo Wheels

Fundo Wheels AS ("Fundo"), located in Hoyanger, Norway, is an original equipment manufacturer of cast aluminium wheels for high end European car manufacturers. On March 22, 2004, Timminco indirectly acquired a 24.4% interest in Fundo Wheels AS ("Fundo"), for \$4,706.

To complete the acquisition, Timminco acquired 100% of the shares of a Norwegian Company, Nor-Wheels AS ("Nor-Wheels"), which held 24.4% of the shares of Fundo. Nor-Wheels has become a subsidiary of Timminco and has assumed Timminco's rights and obligations under the Call Option and Fees Agreement and other existing agreements with the controlling shareholder of Fundo, which is the Community of Hoyanger (the "Community"). Under these agreements, Nor-Wheels holds a call option to purchase the Community's Fundo shares no sooner than January 1, 2008, on the satisfaction of certain conditions. As at 31 December 2006, the Community owns approximately 52.9% of Fundo. Beginning January 1, 2008, the Community may exercise a put option requiring Nor-Wheels to purchase the Community's shares, at book value determined on the date of exercise. The Corporation accounts for the Fundo investment under the equity method as it does not have control over Fundo and neither Nor-Wheels nor the Community can exercise the call or the put option until 1 January 2008. The acquisition of the equity interest did not create any purchase discrepancy.

Notes to the combined financial information

15. Associates (continued)

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

	Ownership	Total Assets	Total Liabilities	Net Equity	Revenues	Expense	Recognised Profit or loss	Carrying Amount
2005								
Bostlan	25.0%	6,209	4,757	1,452	8,889	8,838	49	2,176
ALD Holcroft Vacuum Technologica Co. Inc	50.0%	485	543	(58)	294	360	(5)	252
EsteR-Technologie GmbH	50.0%	68	119	(51)	-	27	(27)	204
Fundo Wheels	47.1%	27,054	18,436	8,618	31,427	30,997	430	9,102
		<u>33,816</u>	<u>23,855</u>	<u>9,961</u>	<u>40,610</u>	<u>40,222</u>	<u>447</u>	<u>11,734</u>
2006								
Bostlan	25.0%	6,922	5,244	1,678	8,736	8,688	63	1,547
ALD Holcroft Vacuum Technologica Co. Inc	50.0%	1,405	1,412	(7)	1,771	1,721	51	303
EsteR-Technologie GmbH	50.0%	58	101	(43)	-	33	(33)	171
Fundo Wheels	47.1%	26,147	19,862	6,285	34,143	36,845	(2,702)	7,941
ABS Apparate und Behälterbau GmbH	19.9%	732	288	444	2,208	2,082	126	1,479
FNE Forschungsinstitut für Nichteisen-Metalle Freiberg	24.9%	4,550	2,692	1,858	1,954	1,831	123	1,862
		<u>39,814</u>	<u>29,599</u>	<u>10,215</u>	<u>48,812</u>	<u>51,200</u>	<u>(2,372)</u>	<u>13,303</u>

16. Inventories

	2006	2005
Raw materials	52,907	50,899
Work in progress	15,285	12,323
Finished goods	86,511	81,077
Other	4,948	9,033
	159,651	153,332

In 2006 raw materials, changes in finished goods and work in progress contributed to cost of sales by \$536,644 (2005: \$493,382). In 2006 the write-down of inventories to net realisable value amounted to \$227 (2005: nil). and was included in cost of sales. The charges relate to inventories that are no longer usable, including packaging and raw materials, at SMC in New Jersey where the Company effectively shut down all plant operations. Other inventory primarily includes spare parts that are maintained for operations.

An impairment charge of \$1,983 was recorded at Timminco with respect to the carrying amount of its inventories (see note 14).

Inventory in the amount of \$145,739 (2005: \$138,232) is pledged as collateral to secure the bank loans of certain subsidiaries (see note 21).

17. Trade and other receivables

	<i>Note</i>	2006	2005
Trade debtors		116,814	105,650
Note receivables from related parties		6,590	3,552
Gross amount due from customers for contract work (POC)		85,930	64,150
Less: progress payments received		(68,358)	(45,342)
Total POC receivables		17,572	18,808
		140,976	128,010

At 31 December 2006, trade receivables include receivables from customers who have received direct shipments or services from the Company and receivables from customers who have utilized inventory on consignment. Amounts billed to percentage of completion customers are also included in the trade receivables line item in the balance sheet. The carrying amount of trade receivables approximates their fair value.

At 31 December 2006, trade receivables are shown net of an allowance for impairment of \$1,390 (2005: \$1,390) arising from customer unwillingness or inability to pay. During the year ended 31 December 2006 and 2005, impairment losses in the amount of \$398 and \$1,227, respectively, have been recorded.

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

Receivables in the amount of \$92,580 (2005: \$92,762) are pledged as collateral to secure the bank loans of certain subsidiaries (see note 21).

18. Cash and cash equivalents

	2006	2005
Bank balances	44,728	49,814
Call deposits	9,882	503
	54,610	50,317

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

19. Capital and reserves

At 31 December 2006, the authorised share capital was comprised of 1,000 ordinary shares (2005: -0-) with a nominal share value of €100. At 31 December 2006, the issued and outstanding share capital was comprised of 450 ordinary shares (2005: -0-), with a nominal value of €100 which were fully paid.

Other Reserves

	Net unrealised gains (losses) reserve	Foreign currency translation reserve	Treasury reserve	Total
Balance at 1 January 2005	(399)	(2,892)	-	(3,291)
Currency translation differences	-	(1,607)	-	(1,607)
Gross movement on cash flow hedges	1,305	-	-	1,305
Balance at 31 December 2005	906	(4,499)	-	(3,593)
Balance at 1 January 2006	906	(4,499)	-	(3,593)
Currency translation differences	-	2,952	-	2,952
Gross movement on cash flow hedges	(162)	-	-	(162)
Tax effect on net movement on cash flow hedges	(210)	-	-	(210)
Acquisition of treasury shares	-	-	(14,300)	(14,300)
Balance at 31 December 2006	534	(1,547)	(14,300)	(15,313)

Net unrealised gains (losses) reserve

The net unrealised gains (losses) reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. For further discussion of the cash flow hedges and the amounts that were realised in the income statement, see note 30.

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries. As of 1 January 2005, there are three functional currencies used within the Company: the U.S. Dollar, the Canadian Dollar and the Euro. Prior to 1 January 2005, all foreign operations with functional currencies other than the U.S. Dollar, translated their asset and liability accounts at current exchange rates and their income and expenses were translated using average exchange rates. Resulting translation adjustments were reported in a separate component of equity.

Acquisition of treasury shares

A treasury reserve was created at ALD in 2006, when Safeguard International, its ultimate parent, bought a subsidiary from ALD and instead of paying cash for the subsidiary, paid in ALD's own shares. This reserve has a balance of \$14,300 at 31 December 2006.

20. 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. For the purposes of the calculation noted below, the calculation is performed using the shares outstanding as at 31 December 2006.

Diluted earnings per share are calculated by dividing the net profit attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. At year end 31 December 2006, diluted earnings per share is calculated having given effect to a share split and the contribution in kind that occurred in March 2007 (Note 35).

	2006	2005
Net profit attributable to equity holders	4,507	16,874
Weighted average number of shares	450	-
Weighted average number of shares given effect to share split and contribution in kind	3,493,219	N/A

21. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk, see notes 28 and 29.

	2006	2005
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Non-current liabilities

Senior secured Class A notes, net of unamortized discount of \$6,549 and \$7,823	109,055	107,412
Senior secured Class B notes, net of unamortized discount of \$2,949 and \$3,424	46,719	45,606
LSM term note with Barclays Bank plc	-	8,235
LSM term note with HSBC Bank plc	6,113	7,570
GFE term loan	128	1,151
GFE bank loan	2,476	2,308
Sudamin revolving credit	6,334	7,578
Timminco Bank of America Term Loan	-	3,747
Timminco Elkon Products Loan	173	-
ALD Investment Loan DIF	-	274
ALD Bayrische	-	148
ALD Dresdner Bank	1,593	2,033
ALD LaSalle Bank	-	1,778
ALD HSBC subordinated loan	12,754	11,386
Other	41	54
	185,386	199,280

Current liabilities

LSM term note with Barclays Bank plc	8,234	1,136
LSM term note with HSBC Bank plc	1,458	1,458
GFE term loan	759	681
GFE bank loan	145	130
Sudamin revolving credit	2,112	1,894
Sudamin capital lease	-	118
Timminco Bank of America Term Loan	3,738	1,153
ALD Investment Loan DIF	306	391
ALD Bayrische	165	148
ALD Dresdner Bank	660	593
ALD LaSalle Bank	5,006	-
Other	76	77
	22,659	7,779

21. Loans and borrowings (continued)

Refinancing

On 1 August 2005, Metallurg prepaid the Term A loan with MHR Institutional Partners II LP (“MHR”) with cash on hand. The total payment of \$18,371 included \$15,000 of original principal, \$1,403 of interest paid-in-kind and added to principal and \$1,968 of prepayment penalty. The prepayment penalty is classified as and included in loss on extinguishment of debt on the combined income statement.

On 29 September 2005, Metallurg refinanced all of its U.S. debt obligations by entering into a new revolving credit facility and the issuance of \$167,500 face amount of senior secured notes (the “Refinancing”). In connection with the Refinancing, Metallurg incurred a loss on debt extinguishment of \$8,266. This includes \$2,690 of prepayment penalties, \$4,160 from the write-off of the unamortized balance of previously deferred financing costs, \$1,346 of interest expense for the 30-day redemption notice period required in connection with the Refinancing and \$70 of other expenses, all of which is classified as and included in loss on extinguishment of debt on the combined income statement.

Senior secured notes

In connection with the Refinancing, as described above, on 29 September 2005, Metallurg received \$164,200 in net proceeds from the issuance of \$117,500 aggregate principal amount of Senior Secured Class A Notes due 1 October 2010 (the “Class A Notes”) and \$50,000 aggregate principal amount of Senior Secured Class B Notes due 1 October 2010 (the “Class B Notes”). The Class A and Class B Notes are collectively referred to as the “Senior Secured Notes”.

The Class A Notes accrue interest at an annual rate of 10.5% that is paid in arrears on 1 April and 1 October of each year, commencing 1 April 2006. The Class B Notes accrue interest (a) payable in cash, at a rate equal to six-month LIBOR plus a margin of 11.0% per annum payable in arrears on 1 April and 1 October, commencing on 1 April 2006, and (b) in kind, at a rate of 1.0% per annum. The LIBOR rate in effect for the period 29 September 2005 through 31 March 2006 is 4.18%. The Class A Notes and related guarantee are collateralized by a first priority security interest in substantially all of Metallurg’s and the guarantor U.S. assets and certain subsidiary stock, other than certain excluded assets and the assets that collateralize the Credit Facility on a first priority basis and by a second priority security interest in all assets that collateralize the Credit Facility on a first priority basis. The Class B Notes and related guarantees are collateralized by a second priority security interest in the same assets that collateralize the Class A Notes on a first priority basis, and by a third priority security interest in all assets collateralizing the Credit Facility on a first priority basis.

Both the Class A and Class B note agreements require us to achieve at least \$35,000 of combined cash flow, as defined; or otherwise have net debt, as defined, be less than five times combined cash flow. In addition, the Class A Note and Class B Note indentures limit the Metallurg and its restricted subsidiaries’ ability to, among other things, incur indebtedness or issue preferred stock, pay dividends, redeem stock or make other distributions, make certain investments, create liens securing indebtedness, enter into transactions with affiliates, merge or consolidate and transfer or sell assets. These covenants are subject to important qualifications and exceptions. Both indenture agreements also contain affirmative covenants and events of default that are customary for high-yield debt securities.

LSM term notes

LSM loan with Barclays Bank plc (“Barclays”) is for \$10,507 for a term of two years and three months and bears interest at 3-month U.S. dollar LIBOR plus 1.00%. LSM makes quarterly principal repayments of \$284, plus interest. At 31 December 2006, \$8,234 remains outstanding under the loan.

LSM loan with HSBC Bank plc (“HSBC”) is for \$10,486 for a term of four and one-half years and bears interest at 3-month U.S. dollar LIBOR plus 1.25%. LSM makes quarterly principal repayments of \$364, plus interest. At 31 December 2006, \$7,571 remains outstanding under this loan.

These term loan facilities are collateralized by the assets of LSM and require LSM to comply with various covenants, including the maintenance of minimum tangible net worth and interest coverage. In January 2005, these loans were amended to denominate them in U.S. dollars on similar terms and conditions.

21. Loans and borrowings (continued)

GfE credit facilities

GfE entered into a credit facility with IKB Deutsche Industriebank AG Munich (IKB) on April 28, 1999 with an annual interest rate of 3.95 %. The amount outstanding under this loan as of 31 December 2006 is approximately \$887 (2005: \$1,832). This loan requires semi-annual payments with final payment being due on 31 December 2008. The loan is secured by land and building. GfE also entered into a loan agreement with Sparkasse Nuremberg on December 1, 2003, with an annual interest rate of 4.92 % and annual payments of approximately \$132. This loan is also secured by land and building. The current amount outstanding is \$2,621 (2005: \$2,438). The payment on this loan is due in November 2023.

Sudamin credit facilities

Sudamin entered into a revolving credit facility with ING and Fortis on 26 April 2005 valued at approximately \$10,558 (€8,000). The initial amount of the borrowings under the revolving credit facility with each bank was \$5,279 (€4,000) (for a total of \$10,558) with a term of 5 years. These loans bear interest at EURIBOR + 2.5%. Sudamin makes annual principal payments on the loans. These loans are collateralized by the assets of Sudamin and require the company to comply with two covenants including a maximum debt to EBITDA ratio and a minimum current ratio. These loans are due on 30 April 2010. At 31 December 2006 and 2005, \$8,446 and \$9,472 were outstanding, respectively.

Timminco credit facilities

On April 15th, 2005, Timminco entered into a Credit Agreement (the "Agreement") with Bank of America, NA. The Agreement provides for a \$5,750 term loan. The term loan bears interest at the prime rate plus 1.5% to 2.25% and requires quarterly repayments of \$0.3 million. The Agreement expires on November 30, 2007 and, at the option of Timminco and subject to meeting certain requirements, may be extended to April 30, 2010. The loans are secured by the assets of Timminco. At 31 December 2006 and 2005, \$3,738 and \$4,900 were outstanding, respectively.

As at 31 December 2005, the Bank amended the banking agreement to adjust the fixed charge ratio covenant ("FCR covenant") as at 31 December 2005 and for the fiscal year of 2006 to permit Timminco to maintain its compliance with the banking covenants. The FCR covenant measures the ratio of adjusted cash flow from net income less capital expenditures and taxes divided by the cash flow related to interest and principal repayments. For the twelve months ended 31 December 2005, the FCR covenant was amended such that Timminco met the requirements of the agreement. As at March 31, 2006, Timminco was in compliance with its banking covenants. As at June 30, 2006, the Bank further amended the banking agreement requiring Timminco to maintain minimum levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") as defined by the banking agreement and limiting the amount of capital expenditures. Both the EBITDA and capital expenditure requirements were to be measured at June 30, September 30 and 31 December 2006. As at 31 December 2006, the Bank amended the covenants such that Timminco was in compliance. The Bank also amended the covenants for fiscal 2007. For the first three quarters of 2007, Timminco must meet certain EBITDA levels and submit to limits on capital spending. The revised covenants for 2007 were based on the 2007 budget.

Timminco also entered into a line of credit in 2006 valued at \$215 with Elkon Products. This facility bears interest at 7% and matures on 30 June 2010. This line of credit had \$173 outstanding as of 31 December 2006.

21. Loans and borrowings (continued)

ALD credit facilities

On 26 September 2003, ALD entered into a Loan Agreement with DIF Deutsche Investitions Finanz GmbH, Bad Homburg Germany. The principal amount of the loan was approximately \$1,666, of which \$306 was outstanding at 31 December 2006 (2005: \$665). The loan bears interest at a fixed rate of 3.18% and requires monthly repayments of \$40. The Agreement expires on August 15, 2007. The loan is secured by specific assets of ALD.

On 10 November 2003, ALD entered into a Loan Agreement with Bayrische Hypo- und Vereinsbank AG, Frankfurt am Main, Germany. The original principal amount of the loan was \$660, of which \$165 was outstanding on 31 December 2006 (2005: \$296). The loan bears interest at a fixed rate of 5.03% and requires quarterly repayments of \$41. The Agreement expires on December 15, 2007. The loan is secured by chattel mortgage of one vacuum furnace, through-type furnace and one conveyer belt. Retention of at least 25% of the net earnings of VACUHEAT GmbH is also required by the Agreement.

On 2 May 2005, ALD entered into a Loan Agreement with Dresdner Bank AG, Frankfurt am Main, Germany. The principal amount of the loan is \$3,299, of which \$2,253 was outstanding at 31 December 2006 (2005: \$2,626). The loan bears interest at 3.514% plus a variable margin and requires monthly repayments of \$55. By means of an interest fixation notification for OTC Interest and Credit Guarantee the interest rate was fixed at 4.66%. The Agreement expires on May 1, 2010. The loan is secured by a blanket assignment of all receivables to Siemens VDO Automotiv AG and additional specific assets of ALD.

On 1 November 2005, ALD entered into a Loan Agreement with La Salle Bank, Detroit MI, USA. The principal amount of the loan is \$5,000, which was all outstanding at 31 December 2006 (2005: \$1,778). The loan bears interest at USD LIBOR plus an additional margin of 2.25% to 2.75% which is determined by covenants specified in the Agreement. Repayments are due to start on May 1, 2007. The loan is secured by certain ALD properties in the United States.

With Agreement dated 28 June 2005 and 8 August 2005, ALD entered into a Subordinated Loan Agreement with HSBC Trinkhaus & Burkhardt KGaA. The principal amount of the subordinated loan is \$13,197, of which \$12,754 was outstanding at 31 December 2006 (2005: \$11,386). 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 not earlier than August 10, 2012. Repayments are due to start on May 1, 2007. The loan is secured by certain assets in the United States.

Debt Issuance Costs

In connection with the refinancing of the Class A and Class B notes in the year ended 31 December 2005, Metallurg incurred issuance costs which were deducted from the proceeds of the debt. These costs totalled \$11,616 and were comprised of \$9,000 of banker transaction costs, \$1,829 of legal costs, \$421 of accounting costs and \$366 of other miscellaneous costs associated with the offering. These amounts are amortized using the effective interest method.

In connection with amendments made to the Timminco credit facility, issuance costs of \$207 and \$750 were paid during the years ended 31 December 2006 and 2005, respectively.

Debt Repayments

During 2006, the Company repaid \$11,878 of debt. Of this amount, GfE repaid \$4,582 of debt: \$3,391 was related party debt with Sudamin LLC (a Safeguard International Holding company) as described in note 22 and \$1,185 related to the repayment of IKB issued debt, describe above. \$2,594 relates to payments made by LSM on the HSBC and Barclay's term loans of \$1,457 and \$1,137, respectively. Sudamin also repaid \$2,112 of the ING and Fortis term loans in 2006. The remaining \$4,702 of repayments relates to other debt.

During 2005, the Company repaid \$219,883 of debt, of which \$158,387 was directly related to the Refinancing. These repayments included the Metallurg Holdings Senior Discount Notes, which accrued interest at 12.75% per annum, payable semi-annually in arrears, and the Metallurg Holdings MHR term loans, which accrued interest at 20% per annum. Metallurg also repaid the Metallurg Inc. Senior Notes, which accrued interest at 11.0%, payable semi-annually, and the MHR debt, which consisted of a term loan utilized for working capital and letters of credit that accrued interest at a rate of 20%. Metallurg repaid approximately \$16,400 of other debt with proceeds from the Refinancing. Timminco, in connection with its refinancing, repaid \$17,864 to retire all of its outstanding bank debt with its Canadian banks. Also in 2005, Sudamin repaid approximately \$16,500 to Sudamin LLC (a Safeguard International Holding Company) in connection with its financing with ING and Fortis. The remaining \$10,732 of repayments includes ALD's repayment of \$4,922 of its loan with General Electric Corporation, as well as \$5,810 related to other debt.

22. Related party debt

At 31 December 2005, GfE had a long-term loan outstanding with Sudamin Holdings LLC, a Safeguard entity. This loan had an interest rate of 11%. In April, 2006, this amount was repaid to Sudamin Holdings LLC by ALD Vacuum Technologies and it is treated as an intercompany debt that eliminates in the year ended 31 December 2006. The amount outstanding under this note was \$3,197 as of 31 December 2005. This note is due on 31 December 2012.

Sudamin also has two loan agreements with Safeguard International or related Safeguard entities. Sudamin Holdings LLC (a Safeguard International holding company) loaned Sudamin \$21,700 on 12 January 2000. This loan has been repaid over time, bears interest at 5.35% per year and is considered long-term. The amount outstanding under this loan is \$721 and \$684 at 31 December 2006 and 2005, respectively. In April 2006, Sudamin Holdings LLC also loaned Sudamin \$3,750. This amount, \$3,757, at 31 December 2006, bears interest at 7% per annum and is due 30 April 2010.

On 9 March 2006, Timminco borrowed \$2,000 from an affiliate of Safeguard, its controlling shareholder. The loan may be settled, at the lender's option, in cash or shares at CAD 0.40 per share, or a combination of cash and shares. The transaction was recorded as \$1,507 as Related party debt and \$687 as a convertible note in equity. The expected life of the debt coincides with the maturity of the Bank of America agreement including the optional renewal period, to which the debt is subordinate. This note was discharged in full on 30 April 2007, when ALD International converted the entire principal amount of this loan into 5.6 million Timminco Shares. See note 34 for subsequent events.

On 5 September 2006, Timminco borrowed \$3,000 from Safeguard, its controlling shareholder. The loan may be settled, at the lender's option, in cash or shares at CAD 0.40 per share, or a combination of cash and shares. The transaction was recorded as \$2,282 as Related party debt and \$772 as convertible note in equity. The expected life of the debt coincides with the maturity of the Bank of America agreement including the optional renewal period, to which the debt is subordinate.

In December 2006, Timminco borrowed \$928 from an affiliate of Safeguard, its controlling shareholder. The loan bears interest at 11% and matures in December 2007.

All Timminco related party loans are postponed to existing bank loans secured by Timminco, and the security for the loans is subordinated to that for those bank loans. Subject to this postponement, the loans may be repaid at any time. They must be repaid on the occurrence of an event of default. Safeguard or its affiliates are entitled to terminate the loan agreements if bankruptcy or similar proceedings are commenced over the assets of Timminco, Fundo or Fundo Holdings AS.

GfE also had various short term loans outstanding from Safeguard, and other Safeguard related entities. These loans bear interest at rates between 4.17% and 11%. At 31 December 2006 and 2005, the amounts outstanding under these loans were \$6,341 and \$5,457, respectively. All inventories and all non-German receivables are pledged as collateral for certain of these notes.

On 24 February 2004, Safeguard for its own account and the accounts of others, and SCP Private Equity Partners, L.P., another Shareholder, provided Metallurg Holdings with a US\$8.0 million subordinated loan so that MVC could complete the purchase of vanadium-containing raw materials for its Cambridge, Ohio, United States plant, under a five-year supply contract. The loan was repaid in September 2005.

23. Short term debt

Credit Facility

On 29 September 2005, Metallurg Holdings, Metallurg, Inc. and SMC (collectively, the "Borrowers") and Metallurg Holdings Corporation (the "Guarantor") entered into a revolving credit facility with Wachovia Bank, National Association (the "Credit Facility"), which expires on 29 September 2010. The Credit Facility provides the Company with up to \$30,000 for working capital requirements and general corporate purposes and is collateralized by a first priority security interest on receivables and inventory and by a third priority security interest on substantially all of the Company's remaining assets (except real estate, as defined). Interest is charged at a rate per annum equal to the "prime rate", plus a margin of 0% to 0.25%, or the Adjusted Eurodollar Rate used by Wachovia, plus a margin of 1.75% to 2.25%. In each case the margin varies depending upon the Company's quarterly average excess availability under the Credit Facility. The total amount the Company may borrow at any time is limited to a borrowing base calculation that is based on eligible accounts receivable, inventory and a special cash collateral, as defined. In addition, the Company must maintain at least \$5,000 of excess availability or maintain a 1.05 fixed charge coverage ratio, as defined, and comply with other affirmative and negative covenants customary in this type of credit facility. At 31 December 2006, the Company had \$4,500 of borrowings (\$3,621 net of debt issuance costs) and \$5,664 of letters of credit outstanding under this facility. In addition at 31 December 2006, the Company had unused availability of approximately \$19,836 under this facility.

In connection with the refinancing of the Wachovia credit facility, Metallurg incurred issuance costs which were deducted from the proceeds of the debt. These costs totalled \$1,121 and were comprised of \$225 of banker transaction costs, \$814 of legal costs and \$82 of other miscellaneous costs associated with the offering. These amounts are amortized using the effective interest method.

LSM revolving credit facilities

LSM has revolving credit facilities with Barclays and HSBC. At 31 December 2006, these facilities provide LSM with up to \$16,637 of borrowings, \$127,100 of foreign exchange contracts and options and \$15,700 for other ancillary banking arrangements, including bank guarantees. Borrowings under these facilities are collateralized by the assets of LSM and are repayable on demand. Outstanding loans under these facilities bear interest at each bank's base rate plus 1.0% to 1.75%. At 31 December 2006 and 2005, there was \$6,450 and \$639 respectively, of borrowings outstanding under these facilities. In January 2005, these revolving credit facilities were amended to denominate them in U.S. dollars on similar terms and conditions.

Sudamin overdraft facility

Concurrent with its revolving credit facility, Sudamin entered into an overdraft facility with ING and Fortis on 28 April 2005. On 31 December 2006, these facilities provide Sudamin with up to €8,500 of borrowings (approximately \$11,217 at 31 December 2006), including bank guarantees. Borrowings under these facilities are collateralized by the assets of Sudamin Holding and are repayable upon demand. Outstanding loans under these facilities bear interest at a rate of Euribor + 0.80%. These loans require the company to comply with two covenants including a maximum debt to EBITDA ratio and a minimum current ratio. At 31 December 2006 and 2005, borrowings under these facilities were approximately \$10,252 and \$7,986, respectively.

Timminco

On April 15th, 2005, Timminco entered into a Credit Agreement (the "Agreement") with Bank of America, NA. The Agreement provides for maximum credit lines of \$32,800, limited by a borrowing base, in a revolving loan (the "Revolver"). The Revolver bears interest at the prime rate plus 0.5% to 1.25% and does not require minimum repayments. The Agreement expires on November 30, 2007 and, at the option of Timminco and subject to meeting certain requirements, may be extended to April 30, 2010. The loans are secured by the assets of Timminco. As at 31 December 2006, Timminco had fully utilized its availability under the Revolver and had \$22,522 outstanding (2005: \$22,492).

Other

CIF maintains short term secured and unsecured borrowing arrangements with various banks totaling \$16,441. Borrowings under these arrangements are included in Short term debt on the combined balance sheet and aggregated \$12,018 at 31 December 2006 (2005: \$10,609) at a weighted-average interest rate of 6.96%.

At 31 December 2005, ALD had short term debt of \$23 related to a finance lease.

Sudamin obtained an additional line of credit in July 2006 for \$5,279 (€4,000) with ING (\$2,639) and FORTIS (\$2,639) at an interest rate of 4.9%. As of 31 December 2006 there were no outstanding borrowings against this line of credit.

24. Employee benefits

Defined Contribution Plans

Certain of the company's employees maintain U.S. tax qualified defined contribution plans covering substantially all of the Company's salaried and hourly employees at U.S. subsidiaries. All contributions, including a portion that represents a company match, are made in cash into mutual fund accounts in accordance with the participants' investment elections. The assets of the plans are held separately from the assets of the subsidiaries under the control of trustees. Where employees leave the plans prior to vesting fully in the Company contributions, the contributions payable by the Company are reduced by the forfeited contributions.

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

The total expense recognised in the combined income statement of \$4,721 (2005: \$2,457) represents contributions paid and payable to these plans.

Defined Benefit Plans

North American plans

U.S. 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 U.S. Employee Retirement Income Security Act. Substantially all plan assets are invested in cash and short term investments or listed stocks and bonds. The Company also maintains U.S. tax qualified defined contribution plans covering substantially all of the Company's salaried employees at U.S. subsidiaries. All contributions, including a portion that represents a company match, are made in cash into mutual fund accounts in accordance with the participants' investment elections.

On June 1, 2005, Metallurg entered into a Supplemental Executive Retirement Plan (the "SERP") with Eric E. Jackson, it's 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 U.S. plan and payable from age 65 until age 88. The maximum retirement benefit payment will also be reduced in the case of the commencement of benefit payments prior to age 65 as a result of Mr. Jackson's early termination and/or early retirement. At June 1, 2005, Metallurg recorded a prior service cost expense and a pension liability of \$516. Under the terms of the SERP, Metallurg has no obligation to set aside, earmark or entrust any fund or money with which to pay the obligations thereto.

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

24. Employee benefits (continued)**Actuarial assumptions**

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

	2006	2005
	% per annum	% per annum
Expected return on plan assets at 1 January	8.25	9.00
Inflation	N/A	N/A
Salary increases	4.00*	4.00
Rate of discount at 31 December	6.00	5.75
Taxable wage base increases	3.00	3.00
IRC Section 401(a)(17) and 415 limits increases	3.00	3.00

* Until 30 September 2006.

The investment strategy of the subsidiaries is to achieve long-term capital appreciation, while reducing risk through diversification in order to meet the obligations of the plans. The expected return on plan assets assumption, reviewed annually, reflects the average rate of earnings expected on the funds invested using weighted average historical returns of approximately 9.0% for equities and approximately 2.0% for debt. In 2006, the plan assets for the US plans were reallocated to better match the expected benefit payments. This new allocation made the expected return on plan assets 8.25% for the U.S. 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 31 December 2007 is \$1,267.

Canada and U.S. plans (Timminco)

Timminco provides pension or retirement benefits to substantially all of its employees in Canada and the United States through 401K and defined benefit plans, based on length of service and remuneration. Retirement benefits are provided based on length of service and remuneration. Pension benefits vest immediately and are based on years of service and average final earnings. Other retirement benefits consist of a group insurance plan covering plan members for life insurance, disability, hospital, medical and dental benefits. At retirement, employees maintain a reduced life insurance coverage and certain hospital and medical benefits. The other retirement coverage provided by the plan is not funded. Employer contributions to the pension plans were made in accordance with their respective actuarial valuations.

Timminco Metals

Timminco provides a flat contributory retirement defined benefit pension plan for the Haley plant hourly employees of Timminco Metals, a division of Timminco Limited.

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2006	2005
	% per annum	% per annum
Expected return on plan assets at 1 January	7.50	7.50
Inflation	N / A	N / A
Salary increases	N / A	N / A
Rate of discount at 31 December	5.00	6.00
Pension payments increases	N / A	N / A

24. Employee benefits (continued)

Becancour Silicon Inc. ("BSI")

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

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2006 % per annum	2005 % per annum
Expected return on plan assets at 1 January	7.00	7.50
Inflation	N / A	N / A
Salary increases	2.50	2.50
Rate of discount at 31 December	5.25	5.00
Pension payments increases	N / A	N / A
Health care inflation - Select	5.89	6.42
Health care inflation - Ultimate	4.30	4.30

The best estimate of contributions to be paid to the Timminco plans for the year ending 31 December 2007 is \$3,133 .

European plans

U.K. 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 U.K. The last full actuarial valuations of these schemes was carried out by a qualified independent actuary as at 31 December 2005 and updated on an approximate basis to 31 December 2006.

Substantially all plan assets are invested in listed stocks and bonds. Benefits under these plans are based on years of service and the employee's compensation. Benefits are paid either from plan assets or, in certain instances, directly by LSM.

The expected long-term return on cash is equal to bank base rates at the balance sheet date. The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the balance sheet date. The expected rate of return on equities and property have been determined by setting an appropriate risk premium above gilt/bond yields having regard to market conditions at the balance sheet date.

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

	2006 % per annum	2005 % per annum
Equities	7.75	7.75
Bonds	4.30-5.00	4.10-4.50
Cash	5.00	3.50
Other	4.30	4.10
Overall for U.K. plans	4.30-7.10	4.10-6.93

The actual return on the plan assets over the year ending 31 December 2006 was 27.0% for the primary and 16.3% for the additional defined benefit plan, respectively. The actual return on plan assets for the year ending 31 December 2005 was 5.4% for the primary and 1.3% for the additional defined benefit plan.

24. Employee benefits (continued)**Actuarial assumptions**

	2006	2005
	% per annum	% per annum
Inflation	2.90-3.00	2.70
Salary increases	N / A	3.95
Rate of discount at 31 December	5.30	4.80
Allowance for pension in payment increases of the Retail Prices Index ("RPI") or 5% p.a. if less	2.90	2.60-2.70
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	2.90-3.00	2.70
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 plans for the year ending 31 December 2007 is \$2,877 and \$562 for the primary and additional defined benefit plans, respectively.

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

ALD plans

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

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2006	2005
	% per annum	% per annum
Expected return on plan assets at 1 January	Nil	Nil
Inflation	N / A	N / A
Salary increases	2.00	1.50
Rate of discount at 31 December	4.51	4.43
Pension payments increases	1.90	1.90
IRC Section 401(a)(17) and 415 limits increases	3.00	3.00

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

The best estimate of contributions to be paid to the plans for the year ending 31 December 2007 is \$808 .

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.

Actuarial assumptions

Principal actuarial assumptions at the reporting date are presented below.

	2006	2005
	% per annum	% per annum
Inflation	N / A	N / A
Salary increases	2.50	2.50
Rate of discount at 31 December	4.40	4.25
Pension payments increases	1.75	1.75

24. Employee benefits (continued)

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

GFE plan assets consist of insurance contracts, and the expected long term rates of return are 5% for all periods.

No contributions to GFE plans are expected for the year ending 31 December 2007.

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.

	2006	2005
	% per annum	% per annum
Inflation	0.00	2.00
Salary increases	2.50	2.50
Rate of discount at 31 December	4.00	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 31 December 2007.

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

	North American plans		European plans	
	2006	2005	2006	2005
Present value of unfunded obligations	12,440	12,146	653	448
Present value of funded obligations	75,879	74,489	185,614	191,926
Total present value of obligations	88,319	86,635	186,267	192,374
Fair value of plan assets	(59,460)	(53,403)	(120,123)	(100,723)
Unamortized past service costs	(30)	(34)	-	-
Unrecognised actuarial (gains) and losses	(7,617)	(9,822)	6,797	(10,151)
Recognised liability for defined benefit obligations	21,212	23,376	72,941	81,500
Total employee benefits	21,212	23,376	72,941	81,500

Movement in employee benefits

	North American plans		European plans	
	2006	2005	2006	2005
Recognised liability for defined benefit obligations at 1 January	23,376	22,463	81,500	89,544
Expense (income) recognised in profit and loss (see below)	3,340	2,925	5,362	6,750
Curtailment impact recognised in profit and loss	(1,015)	-	(14,144)	-
Amortization of vested past service cost	-	-	-	-
Benefits paid directly by the employer	-	-	(2,745)	(2,611)
Employer contributions	(4,437)	(2,499)	(3,071)	(4,654)
Effect of movements in foreign exchange rates	(52)	487	6,039	(7,529)
Net Liability for defined benefit obligations at 31 December	21,212	23,376	72,941	81,500
Asset for defined benefit obligations at 31 December	-	-	92	609
Liability for defined benefit obligations at 31 December	21,212	23,376	73,033	82,109

24. Employee benefits (continued)

Plan assets consist of the following:

	North American plans		European plans	
	2006	2005	2006	2005
Equity securities	31,926	31,813	81,368	66,052
Debt securities	23,337	20,649	32,457	28,479
Cash	4,003	-	107	298
Other	194	941	6,191	5,894
	59,460	53,403	120,123	100,723

Movement in present value of defined benefit obligations

	North American plans		European plans	
	2006	2005	2006	2005
Present value of defined benefit obligations at 1 January	86,635	70,433	192,374	188,081
Benefits paid directly by the employer or from the plan assets	(3,886)	(2,663)	(11,247)	(8,042)
Contributions from plan participants	278	234	149	369
Past Service Cost	-	513	609	-
Current service costs and interest (see below)	6,651	6,010	11,058	13,331
Curtailment impact recognised in profit and loss (see below)	(1,015)	121	(14,144)	-
Plan amendments	385	68	-	-
Unrecognised actuarial (gains) and losses	(503)	9,936	658	6,820
Effect of movements in foreign exchange rates	(226)	1,983	6,810	(8,185)
Present value of defined benefit obligations at 31 December	88,319	86,635	186,267	192,374

Movement in fair value of plan assets

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

Expense (income) recognised in profit or loss

	North American plans		European plans	
	2006	2005	2006	2005
Current service costs	2,043	1,794	2,491	3,847
Interest on obligation	4,608	4,215	8,567	9,483
Expected return on plan assets	(4,049)	(3,816)	(6,466)	(6,611)
Administration fees	66	62	-	-
Recognised actuarial losses	283	-	161	31
Amortization of vested past service cost	389	548	609	-
Special termination benefit	-	121	-	-
Subtotal of expense recognised in profit and loss	3,340	2,925	5,362	6,750
Curtailment impact recognised in profit and loss	(1,015)	-	(14,144)	-
Expense (income) recognised in profit and loss	2,325	2,925	(8,782)	6,750

24. Employee benefits (continued)*Net income (expense) recognised in profit and loss*

The expense is recognised in the following line items in the income statement:

	North American plans		European plans	
	2006	2005	2006	2005
Cost of sales	2,986	1,978	1,776	3,587
Selling, general and administrative expenses	354	947	3,586	3,163
Pension Curtailment Gain	(1,015)	-	(14,144)	-
	2,325	2,925	(8,782)	6,750

25. Share-based payments

Metallurg Inc.

The 1998 Equity Compensation Plan was established by Metallurg in November 1998 with 500,000 available shares for stock options and awards. Options have a ten-year term and vest, in most cases, 20% on the date of the grant and 20% on each of the four anniversaries of the date of the grant. All options are to be settled by physical delivery of shares. The weighted average life of the remaining options is 2.6 years and the exercise price for all options is \$30. As of 31 December 2006 and 31 December 2005, 195,000 options were outstanding, fully vested and exercisable.

All options under this plan were granted before 7 November 2002. In accordance with IFRS 1, the recognition and measurement principles in IFRS 2 have not been applied and instead, these options have been accounted for using US GAAP FAS 123, "Accounting for Stock-Based Compensation". Options were valued using the minimum value methodology. No new options have been granted since 1 January 2005 and all options were fully vested at 1 January 2006. Therefore, no compensation expense has been recorded in the year ended 31 December 2006.

The number of share options is as follows:

	Number of options	Number of options
<i>In thousands of options</i>	2006	2005
Outstanding at 1 January	195,000	195,000
Forfeited during the period	-	-
Exercised during the period	-	-
Expired during the period	-	-
Granted during the period	-	-
Outstanding at 31 December	195,000	195,000
Exercisable at 31 December	195,000	195,000

25. Share-based payments (continued)

Timminco:

Stock options have been granted to certain key employees and directors to purchase common shares of Timminco subject to various vesting requirements. During 2004, Timminco established a Share Option Plan (the "Plan") which supersedes the Stock Option Plans for Directors and Key Employees. Under the Plan, options are granted at the discretion of the Board at an exercise price equal to the closing price of the common shares on the Toronto Stock Exchange on the last trading day preceding the day of grant. The options vest equally over a four year period, with the initial 25% vesting after one year. The options have a life of seven years. The Plan was approved at the 2004 Annual and Special Meeting. On 25 April 2005, the Board of Directors approved an amendment to the Plan to increase the maximum number of shares that can be granted under the Plan by an additional 3,028,250.

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

During the year ended 31 December 2006, Timminco recorded stock-based compensation amounting to \$386 (2005 - \$282) which is included in selling and administrative expenses in the statement of operations.

A summary of the status of Timminco's two stock option plans as of 31 December 2006 and 2005 and changes during the years ended on those dates is presented below:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
<i>In thousands of options and Canadian Dollars</i>	2006	2006	2005	2005
Outstanding at 1 January	C\$0.78	3,650	C\$1.11	2,145
Forfeited during the period	C\$0.66	(825)	C\$2.30	(235)
Issued during the period	C\$0.38	900	C\$0.59	1,740
Outstanding at 31 December	C\$0.71	3,725	C\$0.78	3,650
Exercisable at 31 December	C\$0.88	1,196	C\$0.96	478

At 31 December 2006, 1,196,250 options outstanding were exercisable at a weighted average price of C\$0.88, with a weighted average remaining life of 4.6 years. The maximum number of shares that can be granted under the Plan is 6,778,250.

26. Provisions

	Environmental remediation	Restructuring	Other	Total
Balance at 1 January 2005	19,759	3,419	2,924	26,102
Provisions made during the period	151	6,433	4,124	25,236
Provisions used during the period	(3,817)	(1,498)	(2,431)	(7,746)
Currency and reversals	32	(3,264)	(454)	(18,214)
Balance at 1 January 2006	16,125	5,090	4,163	25,378
Provisions made during the period	11,844	4,966	3,863	35,048
Provisions used during the period	(19,744)	(5,580)	(3,577)	(28,901)
Currency and reversals	(59)	796	492	(13,146)
Balance at 31 December 2006	8,166	5,272	4,941	18,379
Non-current	5,835			5,835
Current	2,331	5,272	4,941	12,544
Balance at 31 December 2006	8,166	5,272	4,941	18,379

Environmental remediation

The Company make provisions for environmental cleanup requirements, largely resulting from historical solid and hazardous waste handling and disposal practices at its facilities. Environmental remediation provisions exist at the following sites and are discounted according to the timeline of expected payments:

MVC: Cambridge, OH

The largest issues at the Cambridge, Ohio site relate to a 1997 permanent injunction consent order (“PICO”) entered into with the State of Ohio and Cyprus Foote Mineral Company, the former owner of the site. While MVC and Cyprus Foote are jointly liable, MVC has agreed to perform and be liable for the remedial obligations. The site contains two on-site slag piles that are the result of many years of production. Under the PICO, these slag piles were required to be capped, thereby lowering the radioactive emissions from the piles.

MVC finalized remediation plans with the State of Ohio during 2003 and commenced work in accordance with such plans. Significant remediation activities were completed on one of the slag piles in 2004. The Company anticipates completing substantially all agreed work by the end of 2008. In addition to the capital spending required for the actual cap on the slag piles, the Company anticipates ongoing operations and maintenance expenses (O&M) to be reserved for the site. This O&M is required to be provided for 1000 years. Other environmental items requiring provision include: wetlands remediation and maintenance. These projects are expected to be completed within the next 5 years.

SMC: Newfield, NJ

SMC has entered into administrative consent orders with the New Jersey Department of Environmental Protection under which SMC must conduct remediation activities at the Newfield facility. Since the initial administrative consent order was signed in 1997, many of the obligations of SMC have been completed.

26. Provisions (continued)

In January 2006, SMC entered into a fixed price remediation contract with TRC Companies Inc. ("TRC"), whereby TRC assumes primary responsibility for all non-radiological groundwater environmental remediation obligations at the Newfield facility, with certain exceptions for one contaminant, perchlorate. The initiation of this remediation contract also led to a new Administrative Consent Order ("ACO") that was signed in February 2006. This ACO specifically designated TRC as the entity primarily responsible for the non-radiological contamination and also specifically cited SMC as responsible for the clean-up associated with any perchlorate contamination. This agreement was approved by the New Jersey Department of Environmental Protection (NJDEP) and received final approval by the United States Department of Environmental Protection in March 2006. Under the terms of this agreement, SMC is required to make payments totaling \$16.9 million over the next two years, with \$14.8 million of that amount owed immediately upon the agreement becoming effective. The fixed-price remediation proposal substantially reduces SMC's risk with regard to the Newfield remediation program, but required a premium above previously estimated remediation costs. The \$14.8 million payment was made on April 12, 2006. The only remaining reserve associated with groundwater is the \$2.1 million that is due under the TRC agreement in 2007 and 2008.

Similar to the Cambridge, Ohio facility, Newfield also conducted operations that created a substantial slag pile with low-level radioactive materials. After SMC ceased the production operation that created this slag, it notified the NRC and commenced preparation of the decommissioning plan. This plan was approved for technical review in November 2006. Based on this plan, the costs to cap the slag pile are estimated to be \$3.0 million and are expected to be paid over the next 3 to 5 years. In addition, SMC will have to provide O&M for the site for 1000 years.

CIF: Sao Joao del Rei, Brazil

CIF. Through its normal production process at the mine in Brazil, the Company produces a waste product that requires special handling. In the year ended 31 December 2006, the Company recorded a provision of \$846 in order to properly dispose of the waste that currently exists on-site. This waste has been removed as the amount has been spent as of 31 December 2006.

Remediation trust funds

SMC and MVC established trust funds to accumulate funds for future environmental remediation payments. Amounts are paid out from the trust fund following completion and approval of rehabilitation work. The contributions to the trust fund are placed with investment banks which are responsible for making investments in equity and money market instruments. The trust fund is to be used according to the terms of the trust deed, and the assets are not available for the general purpose of SMC and MVC. The trust funds are discounted and are shown within Other non-current assets in the combined balance sheet.

Timminco: Ontario, Canada

Timminco has \$1,148 and \$1,087 accrued at 31 December 2006 and 2005, respectively, for future site restoration and closure costs associated with its Haley mine. These costs are expected to be paid on a consistent basis over the next 5 years.

Restructuring

Metallurg recorded restructuring charges of \$6,700 in the year ended 31 December 2006. Severance of \$197 was recorded associated with the relocation of the corporate headquarters office. As of March 31, 2006, five headquarters employees were terminated. The severance payments for these employees cease at the end of the first quarter of 2007. During the first quarter of 2006, an asset write-off of \$33 was recorded with an additional write-off of \$8 occurring in the second quarter of 2006 for the furnishings and equipment that were not relocated.

At the Brazilian operation, \$239 of severance was also recorded in 2006 for the termination of approximately 113 people. All Brazilian employees had been paid out in full by 31 December 2006.

26. Provisions (continued)

In the second quarter of 2006, Metallurg recorded additional restructuring reserves at SMC in New Jersey and at LSM. At SMC, the Company effectively shut down all plant operations and the reserves relate primarily to the severance of 14 plant employees. Asset impairment and restructuring charges of \$1,510 were recorded. \$932 was recorded related to the write-down of fixed assets of the plant site that are no longer functioning and are presumed to have no resale value; \$227 relates to write-off inventories that are no longer usable, including packaging and raw materials; and the remainder relates to contract termination costs related to the shut-down.

At LSM, the decision was made to make significant headcount reductions in order to improve profitability and make the operation more competitive. The largest portion of the charge relates to the redundancy of 60 people throughout the operations. LSM recorded \$2,261 of the costs associated with severance in the year-end 31 December 2006. Of the \$2,261 total severance recorded, \$2,099 has already been paid. \$162 is expected to be paid out through June 2007. Asset impairment charges of \$396 were recorded relating to fixed assets on the plant site that are no longer functioning and are presumed to have no resale value. Also included in this amount are contract termination costs of \$41 related to the reductions.

The restructuring plans in Brazil, New Jersey and at LSM are expected to save approximately \$6,500 per annum.

During November 2005, Timminco announced the closure of certain departments at the Haley Plant, effective 31 December 2005. The departments were closed to reduce costs and overheads. Timminco accrued \$2.9 million in respect of the closure to cover severance, related pension expense and the write-off of machinery and equipment.

On November 14, 2006, Timminco announced the closure of certain production facilities at its Haley, Ontario plant. The closure resulted in the elimination of 45 positions and the idling of certain equipment. The Corporation accrued \$2.0 million in respect of the closure to cover severance.

Other

Other provisions mainly comprise warranty provisions that are expected to be utilised within the next 12 months.

27. Other liabilities

Other liabilities are comprised primarily of the following:

	2006	2005
Accrued bonus	5,523	5,633
Accrued interest	5,772	5,414
Accrued professional fees	7,559	4,442
Acquisition liability	3,330	4,166
Accrued employee payroll expenses	5,773	7,653
Accruals for costs	2,306	2,979
Claims	766	2,671
Fiscal contingency	2,347	2,044
Other benefits and compensation	6,464	3,392
Taxes, other than income	3,432	3,116
Other miscellaneous liabilities	10,724	6,616
	<hr/> 53,996	<hr/> 48,126
Thereof:		
Current	44,417	40,095
Long-Term	9,579	8,031

28. Trade and other payables

	2006	2005
Trade payables	93,841	78,414

Trade payables are generally 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.

29. Financial risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, comprise loans and borrowings, related party debt, short term debt and trade payables. The main purpose of these financial instruments is to raise capital for the Company's operations, including working capital needs as well as capital improvements and expansion. The Company has various financial assets such as trade and other receivables and cash, which arise directly from its operations.

The Company also enters into derivative financial instruments, primarily interest rate caps, foreign exchange forward contracts and commodity contracts. The purpose of these instruments is to manage interest rate, currency and price risks. The Company does not enter into any contracts for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Company's income or the value of its holdings of financial instruments. The Company's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Company's floating rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not exposed to interest rate risk.

The Company's current policy is to maintain more than 50% of its borrowings as fixed rate borrowings. It also strives to limit the variability of certain floating rate instruments through the use of interest rate caps. These caps are designed to hedge underlying debt obligations.

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. The Company is exposed to currency risk on sales and raw material purchases that are denominated in a currency other than the respective functional currencies of Company entities. The Company enters into foreign exchange contracts in the regular course of business to manage exposure to currency risk. The contracts mature at the anticipated cash requirement date, generally within twelve months, and are predominantly denominated in U.S. Dollars, British Pound Sterling and Euros.

The notional values provide an indication of the extent of our involvement in such instruments but do not represent our exposure to market risk, which is essentially limited to risk related to currency rate movements. The estimated fair value of foreign exchange contracts is based on estimated amounts at which they could be settled based on market exchange rates and include all foreign exchange contracts regardless of hedge designation.

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.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company's exposure to credit risk with respect to trade and other receivables is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. No single customer accounts for more than 5% of the Company's revenue and geographically, there are no concentrations of credit risk. The Company trades only with creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures which ensure their creditworthiness. In addition, receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to impairment losses is not significant. Collateral is generally not required for trade receivables.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and certain derivative instruments, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of the instruments. Counterparties are generally multinational financial institutions with limited risk of default.

29. Financial risk management objectives and policies (continued)**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 monthly basis. However, at certain subsidiaries, this type of monitoring is done either daily or monthly. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 50 days, including the servicing of financial obligations. In addition, the Company maintains the following lines of credit:

- \$30 million U.S. overdraft facility that is secured by the trade receivables and inventories of the U.S. subsidiaries. Interest is payable at the prime rate.
- \$16.6 million revolving credit facilities in the United Kingdom that are collateralized by the assets of LSM. Interest is payable at a base rate + 1.25%.
- €10.5 million revolving credit facilities (approximately \$13.9 million) in France that are secured by the assets of Sudamin. Interest is payable at Euribor + .80%.

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.

30. 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:

	<i>Note</i>	2006		2005	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Interest rate caps	30	459	459	337	337
Commodity forward contracts	30	790	790	1,031	1,031
Foreign exchange forward contracts	30	1,199	1,199	528	528
Cash and cash equivalents	18	54,610	54,610	50,317	50,317
Related party debt	22	15,536	15,536	9,338	9,338
Fixed rate loans and borrowings	21	131,952	137,997	131,673	141,782
Floating rate loans and borrowings	21	76,093	79,042	75,386	78,810
Commodity forward contracts	30	38	38	104	104
Foreign exchange forward contracts	30	1,265	1,265	1,846	1,846
Short term debt	23	53,180	53,180	41,749	41,749

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

30. Financial instruments (continued)**Interest rate risk**

The following table sets out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk.

31 December 2006

	Carrying Amount	Contractual Cash Flows	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years
Cash and cash equivalents	54,610	54,610	54,610	-	-	-	-	-
Fixed rate loans and borrowings	131,952	140,227	5,779	933	805	117,918	145	14,647
Floating rate loans and borrowings	76,093	79,370	16,880	3,612	6,766	52,112	-	-
Short term bank debt	53,180	53,180	53,180	-	-	-	-	-
Related party debt	15,536	15,536	14,815	-	-	-	721	-

31 December 2005

	Carrying Amount	Contractual Cash Flows	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years
Cash and cash equivalents	50,317	50,317	50,317	-	-	-	-	-
Fixed rate loans and borrowings	131,673	142,338	2,012	5,834	1,492	1,022	118,226	13,752
Floating rate loans and borrowings	75,386	79,203	5,767	11,627	3,362	6,552	51,895	-
Short term bank debt	41,749	41,749	41,749	-	-	-	-	-
Related party debt	9,338	9,338	5,457	-	-	-	684	3,197

Interest on financial instruments classified as floating rate is generally repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The difference between the contractual cash flows and the carrying amount of the financial instruments noted above is due to directly attributable issuance costs in the amount of \$11,552 and \$14,482 as of 31 December 2006 and 2005, respectively, which are offset against the carrying amount of the debt.

30. Financial instruments (continued)**Credit risk**

There are no significant concentrations of credit risk within the Company.

Hedging activities

In September 2005, Metallurg entered into an interest rate cap contract to hedge its exposure to changes in the benchmark interest rate on the \$50 million Class B Notes. This contract provides for a payment by the counterparty if the six-month LIBOR interest rate exceeds 5% on each determination date (every six months starting on 1 April 2006). The contract expires in 2008. Management has designated the interest rate cap as a cash flow hedge of the forecasted interest payments on the debt. As such, any payments received under the contract are offset against Metallurg's interest expense on the Class B Notes. At 31 December 2006 and 2005, the fair value of the interest rate cap was \$301 and \$272, respectively.

Sudamin entered into two interest rate caps in April 2005 with a notional value of €8.5 million (approximately \$11,217 at 31 December 2006) to minimize its exposure to changes in the benchmark interest rate on the revolving credit facilities that the entity has with ING and Fortis. The caps were not designated as cash flow hedges at the inception of the contracts and have a maturity of three years. At 31 December 2006 and 2005, the fair value of the interest rate caps was \$158 and \$65, respectively.

The cash flow hedge was deemed to be highly effective and unrealized gains on the cash flow hedge amounted to \$122 and \$53 in the years ended 31 December 2006 and 2005, respectively. During the years ended 31 December 2006 and 2005, \$90 and nil, respectively, were reclassified to the income statement as offsets to interest expense.

The Company is exposed to volatility in the prices of raw materials used in some products and uses commodity forward contracts to manage these exposures. Such contracts generally mature within twelve months. The open commodity forward contracts as at 31 December 2006 are as follows:

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

The open commodity forward contracts as at 31 December 2005 are as follows:

	Metric Tons	Average price	Fair value
U.S. Dollar denominated contracts to purchase commodities:			
Aluminium forwards	1,900	\$1,976	\$701
Nickel forwards	186	12,074	252
Copper forwards	75	3,040	78
U.S. Dollar denominated contracts to sell commodities:			
Aluminium forwards	625	2,198	(28)
Nickel forwards	96	12,910	(76)

30. Financial instruments (continued)

Cash flow hedges were deemed to be highly effective and unrealized gains on cash flow hedges amounted to \$638 and \$1,171 in the years ended 31 December 2006 and 2005, respectively. During the years ended 31 December 2006 and 2005, \$1,703 and \$178 were reclassified to the income statement as decreases to cost of sales.

At any point in time, the Company also uses foreign exchange forward contracts to hedge a portion of its estimated foreign currency exposure in respect of forecast sales and purchases over the following 12 months. 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 contracts as at 31 December 2006 are as follows:

Exposure	Notional Amount	Contract Rate	Fair Value Assets	Fair Value Liabilities
<i>Cash Flow Hedges</i>				
Euro (versus US Dollar)	€41.3 million	1.302	313	(323)
US Dollar (versus Euro)	\$25.9 million	1.301	530	-
<i>Economic Hedges</i>				
US Dollar (versus Euro)	\$43.8 million	1.305	356	(11)
Euro (versus Canadian Dollar)	€3.4 million	1.500	-	(119)
US Dollar (versus Canadian Dollar)	\$26.4 million	1.123	-	(812)

The open foreign exchange forward contracts as at 31 December 2005 are as follows:

Exposure	Notional Amount	Average Price	Fair Value Assets	Fair Value Liabilities
<i>Cash Flow Hedges</i>				
British Pound Sterling (versus US Dollar)	£7.4 million	1.734	-	(129)
Euro (versus US Dollar)	€22.9 million	1.203	120	(6)
<i>Economic Hedges</i>				
US Dollar (versus Euro)	\$39.3 million	1.232	281	(1,710)
Canadian Dollar (versus Euro)	C\$0.1 million	1.3924	-	(1)
US Dollar (versus Canadian Dollar)	\$27.8 million	1.165	127	-

Cash flow hedges were deemed to be highly effective in the years ended 31 December 2006 and 2005 and unrealized gains on cash flow hedges amounted to \$144 and \$134 in the years ended 31 December 2006 and 2005, respectively. During the years ended 31 December 2006, \$2,208 was reclassified to the income statement as a decrease to cost of sales. In the year ended 31 December 2005, \$2,449 was reclassified to the income statement as an increase to cost of sales.

31. Leases**Operating leases as lessee**

The Company has entered into leases for office space, facilities and equipment. The leases generally provide that the Company pays the tax, insurance and maintenance expenses related to the leased assets. These leases have an average life of 5-7 years with renewal terms at the option of the lessee at lease payments based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

Non-cancellable operating lease rentals are payable as follows:

	2006	2005
Less than one year	7,621	6,105
Between one and five years	20,338	12,152
More than five years	5,323	1,223
	33,282	19,480

During the year ended 31 December 2006 \$6,386 was recognised as an expense in the income statement in respect of operating leases (2005: \$5,377).

Finance leases as lessee

Certain subsidiaries of the Company have finance leases for equipment and software. These non-cancellable leases have remaining terms between one and five years. Future minimum lease payments under finance leases are as follows:

	2006	2005
Less than one year	20	140
Between one and five years	44	57
Total minimum lease payments	64	197
Less amounts representing finance charges	(5)	(12)
Present value of minimum lease payments	59	185

32. Capital commitments

The Company's capital expenditures include projects related to improving the Company's operations, productivity improvements, replacement projects and ongoing environmental requirements (which are in addition to expenditures discussed in "Environmental Remediation Provisions" above). As of 31 December 2006, the Company had committed to capital requirements in the amount of \$7,450 (2005: \$10,695).

33. Contingencies**Guarantees**

The following table outlines the Company's off-balance sheet credit-related guarantees and business-related guarantees for the benefit of third parties as of 31 December 2006:

	Business-related guarantees	Credit-related guarantees	Letters of Credit	Total
2006				
Total Amounts Committed:	46,351	6,655	6,220	59,226
Less than 1 year	32,825	6,655	522	40,002
2 – 5 years	6,859	-	-	6,859
After 5 years	6,667	-	5,698	12,365
2005				
Total Amounts Committed:	18,759	-	27,582	46,341
Less than 1 year	14,674	-	5,725	20,399
2 – 5 years	792	-	-	792
After 5 years	3,293	-	21,857	25,150

33. Contingencies (continued)

Environmental

As discussed in note 26, one of the subsidiaries entered into a fixed price remediation contract with an environmental consultant, whereby that consultant became primarily responsible for certain aspects of the environmental remediation. The subsidiary 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 \$0.5 million - \$2.0 million. At SMC, a reserve has been recorded for the low-level radioactive slag pile (see note 26) which assumes that the Company will be able to remediate the pile using a long-term control license. However, this alternative may be challenged by certain governmental authorities. The second alternative, which the Company believes is not probable, is an offsite disposal alternative. This alternative could potentially cost up to \$63 million. The timing of the payments related to this contingent liability are uncertain due to the legal process that would ensue prior to this occurring. Finally, environmental regulations in France require monitoring of wastewater and potential clean-up to be performed at the Sudamin plant site in Chauny. Although the extent of these issues is not yet known, there is a possibility that the Company could incur remediation costs in excess of \$1 million.

Litigation

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

In addition to the anti-dumping inquiry discussed above and the environmental matters, which are discussed above and in note 26, the Company and its subsidiaries defend, from time to time, various claims and legal actions arising in the normal course of business. Management believes, based on the advice of counsel, that the outcome of such matters will not have a material adverse effect on the Company's combined 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.

34. Related parties

Parent and ultimate controlling party

The Company is wholly owned by a group of investors led by and including Safeguard International Fund, L.P. ("Safeguard International"), an international private equity fund that invests primarily in equity securities of companies in process industries.

Transactions with key management personnel

Key management personnel compensation

Dr. Schimmelbusch and Mr. Spector are managing directors of the management company for Safeguard International, and in these positions receive benefits and perquisites from this management company.

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf.

The compensation of the management board of the Company comprised:

	2006	2005
Salaries and Bonus	4,804	4,694
Contributions to Defined Contribution Plans	19	7
Post-employment benefits	226	700
Other remuneration	40	35
	<u>5,089</u>	<u>5,436</u>

34. Related parties (continued)

Other transactions with key management personnel

As at 31 December 2006, Directors of the Company, through their management company, control 100% percent of the voting shares of the Company. The relatives of Directors hold only a de minimus portion of the voting shares.

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

Company Reorganisation

In December 2002, the Company's subsidiary, Metallurg Holdings, entered into a share purchase agreement with Safeguard International Fund PFW, L.L.C. ("PFW LLC"), a company owned by Safeguard, for the purchase of all of the issued and outstanding shares in GfE by PFW LLC for consideration of € 1.00 and the assumption of GfE's debt, which included \$6.0 million payable to Metallurg by GfE. In connection with the transaction, PFW LLC invested \$1.0 million in GfE in the form of a loan to GfE. In December 2005, GfE entered into an agreement with PFW LLC for the sale of 100% of the stock in its subsidiary GfE Medical AG to PFW LLC, for consideration of € 1.00, and the assignment of a debt owed to GfE by GfE Medical AG in the amount of € 10.7 million to PFW LLC, also for consideration of € 1.00. In December 2005, the Company's subsidiary ALD entered into a share purchase agreement with PFW LLC to acquire all of the issued and outstanding shares in GfE for consideration of € 10.0 million in cash (paid in two equal instalments in December 2005 and in December 2006).

In June 2006, ALD transferred all of the issued and outstanding shares in GfE to its parent company, ALD International, in consideration for 20,510 shares in ALD (which are currently held by ALD as treasury shares). ALD International then transferred the shares in GfE to MDHC in exchange for 26% of the issued and outstanding shares in MDHC. Also in June 2006, Sudamin Holdings LLC, a company owned by Safeguard, contributed all the issued and outstanding shares in Sudamin to MDHC in exchange for shares in MDHC. MDHC then contributed all of the issued and outstanding shares in GfE and Sudamin to Metallurg Holdings in exchange for 4,797,665 shares of Metallurg Holdings' Series A Voting Convertible Preferred Stock, 5,476 shares of Metallurg Holdings' Series B Voting Convertible Preferred Stock and one share of Metallurg Holdings' common stock.

In December 2003, ALD International, a company owned by Safeguard, entered into a share purchase agreement with PFW Aerospace (then called Pfalz-Flugzeugwerke GmbH), also owned by Safeguard, for the sale of all of the issued and outstanding shares in ALD to PFW Aerospace for total consideration of € 48.6 million, of which € 20.0 million was paid in cash and € 28.6 million was in the form of the assignment to ALD International of claims of PFW Aerospace against PFW Beteiligungs-Aktiengesellschaft ("PFW AG") and against PFW Acquisition GmbH, both companies owned by Safeguard. In March 2006, PFW Aerospace sold the shares in ALD back to ALD International for consideration of € 48.6 million in cash, payment of which is deferred until December 2009 (the "Payment Claim"). In April 2006 PFW AG and PFW Acquisition GmbH merged with PFW Aerospace, so that PFW Aerospace assumed the debts of these companies that were assigned to ALD International in March 2006. Following a set-off in June 2006 of mutual claims between ALD International and PFW Aerospace, the outstanding Payment Claim currently amounts to approximately € 16.1 million (including interest up to the end of December 2006). The outstanding Payment Claim including all interest is secured by a pledge of the shares in ALD, which will not be released before payment of the outstanding Payment Claim.

ALD Contribution

In March 2007 the Company issued 2,129,486 Shares to ALD International in exchange for the contribution by ALD International to the Company of all the outstanding shares in ALD (20,510 shares in ALD are currently held by ALD as treasury shares); in connection with this contribution the Company also assumed liability for the outstanding Payment Claim. The Company subsequently contributed the shares in ALD to ALD Holding, a wholly owned subsidiary of the Company, for nil consideration.

MDHC Contribution

On 29 March 2007 the Company issued a total of 549,746 Shares in consideration for the contribution in kind (*inbreng anders dan in geld*) to the Company of shares held by each subscriber in the capital of MDHC. The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as a voluntary share premium (*niet bedongen agio*). The table below sets forth the numbers of Shares issued to each subscriber on 29 March 2007.

34. Related parties (continued)

SUBSCRIBER	NUMBER OF SHARES
Safeguard	272,077
Safeguard Co-Investment Partnership, L.P.	167,414
SCP Private Equity Partners, L.P	101,632
Safeguard Interfund	4,987
DLJ WIN I, L.L.C	1,268
Joseph Marren	1,268
Safeguard International Advisors, L.L.C.	423
Scott Honour	254
Robert McEvoy	254
Scott Morrison	169
Total	549,746

In addition, on 2 April 2007 the Company issued 254 Shares to The Lanigan Trust dated 8 March 2000 in consideration for cash (and at the same time The Lanigan Trust contributed its shares in the capital of MDHC as voluntary share premium).

Timminco Contribution

On 29 March 2007 the Company issued 173,893 Shares to BLP in consideration for the contribution in kind to the Company of 40,909,093 shares in the capital of Timminco. The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as voluntary share premium payment. On the same date BLP transferred 170,977 Shares to Safeguard, 1,177 Shares to Safeguard Interfund and its remaining 1,739 Shares to Becancour G.P., Inc. The Company issued an additional 189,840 shares with respect to this contribution in June.

In January 2004, the Company's owned subsidiary Timminco entered into a call option agreement with PFW AG and Allied Resource Corporation, a company of which Dr. Schimmelbusch is the non-executive chairman, which entitled Timminco to acquire the entire issued share capital of a Norwegian company, NorWheels AS, which held (and still holds) approximately 24% of the shares in Fundo (in addition to the approximately 27% held directly by Timminco). Timminco exercised this option in March 2004 for a purchase price of US\$4.6 million, comprised of US\$3.3 million for the interest in NorWheels AS and US\$2.2 million in respect of certain fees and expenses paid by PFW AG in connection with the transaction. In connection therewith Timminco and Allied Resource Corporation terminated a fees agreement entered into by them dated December 2003 pursuant to which Allied Resource Corporation had granted Timminco the right to acquire certain rights of Allied Resource Corporation in respect of Fundo. Furthermore, in January 2004 Timminco was released from its obligations under an agreement with Allied Resource Corporation and ALD International of December 2003 regarding certain financing arrangements for the acquisition of shares in Fundo by Timminco.

In September 2004, Timminco entered into a stock purchase agreement with Bécancour, L.P. ("BLP") and Bécancour Holding, Inc. ("BHI"), both of which entities were owned by Safeguard, to acquire the entire issued share capital of Bécancour. As consideration for the acquisition, Timminco issued an aggregate of 30,909,091 of its common shares to BLP and BHI and accepted the assignment of the Bécancour's liabilities to BLP under a convertible senior loan agreement, under which a principal amount of US\$7,500,000 was outstanding.

Loans

See Note 22 for specific related party debt included in this combined financial information.

Between January 2004 and May 2007, ALD entered into a series of loan agreements with Intellifast GmbH (formerly known as PFW Technologies GmbH), a subsidiary of Safeguard and PFW LLC, in an aggregate principal amount of \$1,706 all of which was outstanding as at 31 December 2006. The loans were made for growth capital and expansion purposes. The highest interest rate on the outstanding loans is three-month EURIBOR plus 5%.

34. Related parties (continued)

ALD has also entered into a series of loan agreements with ALD International LLC, a subsidiary of Safeguard in 2005 and 2006. The aggregate amounts owed to ALD by ALD International LLC as of 31 December 2006 and 2005 were \$6,335 and \$3,552, respectively. These loans have interest rates of 11%. All loan agreements had short term due dates which were prior to 31 December 2006. However, each loan also granted the borrower the ability to prolong the repayment using prolongation agreements which are in place currently.

Other Transactions

Metallurg Holdings Inc. currently has its headquarters located in office space leased by Safeguard International. Beginning 1 January 2006, Metallurg pays an allocation of Safeguard's costs related to the office and the utilities. In addition to the lease and utility expenses, certain amounts related to travel and entertainment and the salaries of certain employees are cross-charged to Metallurg Holdings by Safeguard. During the year ended 31 December 2006, Metallurg paid \$98 to Safeguard for its portion of costs related to the building. Amounts due to Safeguard at 31 December 2006 and 2005 were \$15 and \$66, respectively.

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

35. Subsequent events

On 1 March 2007, Safeguard, through an affiliate, loaned Timminco CAD 4.5 million to expedite product development and to fund its further investment in Fundo Wheels. The loan is repayable on demand, and bears interest at the U.S. prime rate plus 1%. The loan and related security are subordinate to the indebtedness and the security provided by the Corporation's senior lender, Bank of America, N.A. Under the terms of the loan, Safeguard, through its affiliate, has the option to convert the whole or any part of the outstanding principal amount at any time into common shares of the Corporation at a conversion rate of CAD\$0.42 per common share.

Contribution to AMG

By an amendment of the articles of association of the Company made on 29 March 2007, the authorised share capital of the Company was increased to € 500,000 and the 450 issued shares in the capital of the Company with a nominal value of € 100 each were divided into 450,000 Shares with a nominal value of € 0.10 each.

The Company's share capital has since been increased as described below. As described below, more than 10% of the Company's share capital has been paid for with assets other than cash.

MDHC Contribution

On 29 March 2007 the Company issued a total of 549,746 Shares in consideration for the contribution in kind (*inbreng anders dan in geld*) to the Company of shares held by each subscriber in the capital of MDHC. The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as a voluntary share premium (*niet bedongen agio*). The table below sets forth the numbers of Shares issued to each subscriber on 29 March 2007.

SUBSCRIBER	NUMBER OF SHARES
Safeguard	272,077
Safeguard Co-Investment Partnership, L.P.	167,414
SCP Private Equity Partners, L.P.	101,632
Safeguard Interfund	4,987
DLJ WIN I, L.L.C.	1,268
Joseph Marren	1,268
Safeguard International Advisors, L.L.C.	423
Scott Honour	254
Robert McEvoy	254
Scott Morrison	169
Total	549,746

35. Subsequent events (continued)

In addition, on 2 April 2007 the Company issued 254 Shares to The Lanigan Trust dated 8 March 2000 in consideration for cash (and at the same time The Lanigan Trust contributed its shares in the capital of MDHC as voluntary share premium).

ALD Contribution

On 29 March 2007 the Company issued 2,129,486 Shares to ALD International in partial consideration for the contribution in kind to the Company of all of the outstanding shares in the capital of ALD (the remainder of the consideration being satisfied by the Company's assumption of a debt payable to PFW Aerospace of approximately € 16.1 million). The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as voluntary share premium payment. On the same date ALD International transferred 2,114,937 Shares to Safeguard and its remaining 14,549 Shares to Safeguard Interfund.

Timminco Contribution

On 29 March 2007 the Company issued 173,893 Shares to BLP in consideration for the contribution in kind to the Company of 40,909,093 shares in the capital of Timminco. The value of the contribution in kind in excess of the nominal value of the issued Shares has been recorded as voluntary share premium payment. On the same date BLP transferred 170,977 Shares to Safeguard, 1,177 Shares to Safeguard Interfund and its remaining 1,739 Shares to Becancour G.P., Inc. The Company issued an additional 189,840 shares with respect to this contribution in June.

Current Share Capital

The Company's authorised share capital as at 31 March 2007 was € 500,000, divided into 5,000,000 Shares, each with a nominal value of € 0.10. The Company's issued share capital as at 31 March 2007 was € 330,312.50, divided into 3,303,125 Old Shares, all of which were paid up in full. The Company's issued share capital was increased on 2 April 2007 by the issue of 254 old shares, fully paid, to The Lanigan Trust as described above.

On 29 March 2007, ALD paid a dividend to its parent company, ALC LLC, in the amount of \$4,690 (net of withholding: \$3,700).

On 30 April 2007, Timminco completed its public offering of 10,000,000 common shares at a price of C\$2.60 per share and raised gross proceeds of C\$26,000,000. The underwriters on the public offering also exercised their over-allotment option in full and purchased an additional 1,500,000 common shares at a price of C\$2.60 per common share for gross proceeds of C\$3,900,000. The total gross proceeds of the Offering was C\$29,900,000.

Also on 30 April, 2007, Safeguard completed its conversion of the entire principal amount outstanding under the \$2.0 million convertible promissory note issued March 7, 2006 to an affiliate of Safeguard into 5,601,000 common shares of Timminco at a conversion rate of C\$0.40 per common share. The number and percentage of common shares now held by AMG, after giving effect to the conversion of the principal amount outstanding under the \$2.0 million note into 5,601,000 common shares, the issuance of 10,000,000 common shares in connection with the offering and the issuance of 1,500,000 common shares in connection with the exercise of the over-allotment option, is 46,510,092 common shares, representing 50.3% of the total of issued and outstanding common shares of Timminco, being 92,439,864 common shares.

On 4 May 2007, the Company received a letter of default from the trustee of the Class A Term Notes. The default was in reference to the Company's inability to provide audited US GAAP financials for the year ended 31 December 2006. The default was waived and financial statement covenants were amended to allow for reporting under IFRS through a supplemental indenture signed on 21 June 2007.

Purchase of Land in Berlin by ALD

On 13 June 2007, ALD entered into a purchase agreement (the "**CNH Purchase Agreement**") to purchase, through its subsidiary Monopol 487. GmbH ("**Monopol**"), assets in Berlin, Germany from CNH Baumaschinen GmbH ("**CNH**"). The CNH Purchase Agreement remains subject to several conditions precedent and will terminate if these have not been satisfied by the end of September 2007. The principal asset is a hereditary building right which includes rights over a factory building and a multifunctional building that the Company intends to use to produce solar silicon melting and crystallisation furnaces following the acquisition.

35. Subsequent events (continued)

By a share purchase agreement dated 13 June 2007 (the “**Monopol SPA**”), on that date ALD and Cello Vermögensverwaltungs- und Beteiligungsgesellschaft mbH (“**Cello**”) acquired respectively 51% and 49%, of the shares in Monopol from CNH, for a total purchase price of € 100 (net of value added tax). Before completion of the Monopol SPA, CNH established Monopol as a special purpose company with a share capital of € 1,000,000 and undertook to make voluntary contributions of € 14,500,000 into Monopol’s capital reserve.

Pursuant to the CNH Purchase Agreement, CNH has agreed to sell to Monopol a hereditary building right which it holds relating to real estate in Berlin-Spandau, Germany, together with certain other assets for a total purchase price of € 100 (net of value added tax). The hereditary building right is encumbered with, inter alia, a land charge in the amount of DEM 11,600,000 (€ 5,930,986.80) in favour of the State of Berlin. Monopol will assume this land charge as well as CNH’s rights and obligations under the existing hereditary building right contract with Liegenschaftsfonds Berlin & Co. KG, the owner of the real estate encumbered with the hereditary building right. These obligations include the payment of ground rent of € 396,384 per annum, which will be reduced to € 248,503.20 per annum; the latter amount will be increased to € 258,503.20 per annum with effect from 1 January 2013 and increased by a further € 10,000 per annum every five years thereafter. The hereditary building right expires on 31 December 2038.

Monopol undertook to the State of Berlin in the CNH Purchase Agreement that ALD or companies nominated by ALD and Cello and accepted by the State of Berlin would establish at least 70 permanent jobs at the site by the end of 2007 and a further 80 by the end of 2008 and would maintain these 150 permanent jobs until the end of 2009. In the event of a breach of this undertaking, Monopol is required to pay to CNH a penalty of € 50,000 multiplied by the number of jobs under 150 provided at the site at that time. Monopol has also undertaken to CNH in a separate service agreement to continue the provision of certain services needed by CNH and to let office and other space to CNH, in both cases until 31 December 2011, and CNH has the option to extend the provision of these services and the lease for a further five years.

ALD as a party to the CNH Purchase Agreement guarantees the performance of all obligations of Monopol under that agreement, even though ALD holds only 51% of the shares of Monopol. If the CNH Purchase Agreement is terminated or otherwise avoided, ALD and Cello are obliged to pay EUR€ 15,500,000 (plus interest) to CNH upon demand as joint and several debtors. Any claims of Monopol against CNH arising out of or in connection with the CNH Purchase Agreement will lapse one year after the date of that agreement.

All agreements and statements in respect of this transaction become null and void if CNH does not comply with its obligations to pay up the share capital of Monopol in full and make the voluntary contributions of € 14,500,000 into Monopol’s capital reserve.