Company Registration No. 01209891

HAYNES INTERNATIONAL LIMITED

Annual Report and Financial Statements

For the year ended 30 September 2018

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

CONTENTS

STRATEGIC REPORT

The directors present their strategic report on the affairs of the company, together with the audited financial statements and independent auditor's report, for the year ended 30 September 2018.

Haynes International Limited ("Haynes UK") is a wholly owned subsidiary of Haynes International Inc., a company organised and existing pursuant to the laws of the United States of America.

Principal activity and business review

The principal activity of Haynes UK is the distribution of nickel and cobalt base superalloys, primarily for aerospace and gas turbine applications.

There have not been any significant changes in the principal activities of Haynes UK in the financial year ended 30 September 2018. With strong market growth forecasts in all markets served by Haynes over the next 20 years and beyond, Haynes had made a commitment to increase capacity through additional equipment and align the organisational structure with the needs of core customers. The directors are not aware, at the date of this report, of any other likely major changes in activities of Haynes UK in the next fiscal year.

As shown in the profit and loss account on page 9 of the financial statements, Haynes UK's turnover for the financial year ended 30 September 2018 has increased by 12.1% over the turnover for the financial year ended 30 September 2017. The profit for the year, before taxation, amounted to £8,613,000 (2017 - £6,532,000).

Key Performance Indicators (KPIs)

Management consider the following financial KPIs to be relevant to their monitoring of the business:

	2018 £'000	2017 £'000
Turnover	66,296	59,120
Profit before taxation	8,613	6,532
Stocks	30,556	21,641

The balance sheet on page 10 of the financial statements shows that the financial position of Haynes UK at 30 September 2018 has improved from the prior year as a result of the profitability noted above, in addition to holding more inventory to accommodate for the future pipeline. The directors believe that there are no non-financial key performance indicators that require disclosing.

No significant events requiring disclosure as post balance sheet events have occurred since the balance sheet date.

Principal risks and uncertainties

Haynes UK operates in a competitive and changing market.

The principal risks of the company are considered to be exposure to movements in exchange rates and the general competitive and changing market in the current economic circumstances. These risks are managed by regular cash flow forecasting alongside careful monitoring of raw material prices and exchange rates. Exposure to exchange rate fluctuations is managed by selling a proportion of products in US dollars as well as purchasing in US dollars, for which more details are provided in the Directors' report.

Future developments

The directors expect the same level of growth for the forthcoming year. This is as a result of growing added value business utilising our equipment.

Approved by the Board of Directors and signed by order of the Board

J A Fairbrother
Company Secretary

17th April 2019

Parkhouse Street
Openshaw
Manchester
M11 2ER

DIRECTORS' REPORT

The company's principal activities, key performance indicators, principal risks and uncertainties, and future developments are presented in the Strategic Report.

Directors

The directors, who served throughout the year and thereafter, were as follows:

Mr T Barfoot	
Mr KD Cawley	(Resigned 31 December 2018)
Mr Mike Shor	(American) (appointed 1 June 2018)
Mr M M Comerford	(American) (resigned 1 June 2018)
Mr M C Losch III	(American)
Mr DW Maudlin	(American)

Director's indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Political & charitable contributions

The company has not made any political or charitable donations in the year (2017 - £nil).

Dividends

Dividends of £3,700,141 (£370.01 per share) have been paid during the year (2017 - £nil).

Financial risk management objectives and policies

The company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The company does not use derivative financial instruments.

Credit risk

The company's principal financial assets are bank balances and cash, trade and other receivables.

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Cash flow risk

The company is exposed to risks of changes in foreign currency exchange rates. In connection with the company's risk management strategy, intergroup currency agreements are entered into for trading purposes to reduce the impact of exchange rate and/or interest rate fluctuations related to debt payments. The company does not trade speculatively.

Liquidity risk

The company aims to maintain a balance between continuity of funding and flexibility by ensuring that sufficient borrowing facilities are in place by reference to forecast debt levels.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in Note 1 of the financial statements.

DIRECTORS' REPORT (continued)

Employee policies

Employment of disabled persons

The company is an equal opportunities employer and gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.

Where people become disabled during the course of their employment, every effort is made to retain their services and to provide retraining, if necessary. All employees are eligible for consideration for appropriate training, career development and promotional opportunities; disabled people are not treated differently in this respect.

Employee involvement

The company attaches importance to the development of employee involvement based on a positive, open and constructive approach.

Consultation on affairs of the business is achieved principally through line management, supplemented by a Safety Committee and also communication meetings held periodically with all employees. The aim is to improve the open management style and to continue to encourage employees at all levels to contribute more fully to the decision making process within the business.

Auditor

Each of the persons who are directors at the date of approval of this report confirms that:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This statement is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

During the year the directors reappointed Deloitte LLP as the company's auditor and a resolution to reappoint Deloitte LLP was passed at the Annual General Meeting.

Approved by the Board of Directors and signed by order of the Board

J A Fairbrother
Company Secretary

17th April 2019

Parkhouse Street
Openshaw
Manchester
M11 2ER

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAYNES INTERNATIONAL LIMITED

Report on the audit of the financial statements

Opinion
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Haynes International Limited (the 'company') which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAYNES INTERNATIONAL LIMITED (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Crawford.

David Crawford BA ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom

17/4/19.

Profit and loss account
Year ended 30 September 2018

	Note	2018 £'000	2017 £'000
Turnover	3	66,296	59,120
Cost of sales		(51,684)	(46,678)
Gross profit		14,612	12,442
Distribution costs		(6,029)	(5,927)
Operating profit	4	8,583	6,515
Finance income		30	17
Profit on ordinary activities before taxation		8,613	6,532
Tax on profit on ordinary activities	6	(1,534)	(1,163)
Profit for the financial year		7,079	5,369

All the above operations relate to continuing activities.

Statement of comprehensive income
Year ended 30 September 2018

	Note	2018 £'000	2017 £'000
Profit for the financial year		7,079	5,369
Remeasurement of net defined benefit	15	(607)	(606)
Total comprehensive income attributable to equity shareholders of the company		6,472	4,763

Balance sheet
As at 30 September 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Fixed assets					
Tangible assets	7	2,903		3,005	
			2,903		3,005
Current assets					
Stocks	8	30,556		21,641	
Debtors	9	14,945		13,556	
Cash at bank and in hand		2,184		4,556	
		47,685		39,753	
Creditors: amounts falling due within one year	10	(9,886)		(4,818)	
Net current assets			37,799		34,935
Total assets less current liabilities			40,702		37,940
Provisions for liabilities	11		(198)		(209)
Net assets excluding pension scheme asset			40,504		37,731
Pension scheme asset	15		-		-
Net assets including pension scheme asset			40,504		37,731
Capital and reserves					
Called-up share capital	12		10		10
Other reserves			1,560		1,560
Profit and loss account			38,934		36,161
Shareholder's funds			40,504		37,731

The financial statements of Haynes International Limited, registered number 01209891, were approved by the Board of Directors and authorised for issue on 17th April 2019.

Signed on behalf of the Board of Directors

T Barfoot

T Barfoot

Director

Statement of changes in equity
Year ended 30 September 2018

	Called-up share capital £'000	Other Reserves £'000	Profit and loss account £'000	Total £'000
At 30 September 2016	10	1,560	31,398	32,968
Profit for the financial year	-	-	5,369	5,369
Remeasurement of net defined benefit (note 15)	-	-	(606)	(606)
Total comprehensive income	-	-	4,763	4,763
At 30 September 2017	10	1,560	36,161	37,731
Profit for the financial year	-	-	7,079	7,079
Remeasurement of net defined benefit (note 15)	-	-	(607)	(607)
Total comprehensive income	-	-	6,472	6,472
Dividends paid in the year (£370.01 per share)	-	-	(3,700)	(3,700)
At 30 September 2018	10	1,560	38,933	40,503

Notes to the financial statements
Year ended 30 September 2018

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

General information and basis of accounting

Haynes International Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 3. The nature of the company's operations and its principal activities are set out in the Strategic Report on page 3.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Haynes International Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates. The accounts have been presented in thousands (£'000).

Haynes International Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Haynes International Limited is consolidated in the financial statements of its ultimate parent, Haynes International Inc, which may be obtained from its registered office: 1020 West Park Avenue, Kokomo, Indianapolis. Exemptions have been taken in these separate company financial statements in relation to financial instruments, presentation of a cash flow statement, transactions with related parties and remuneration of key management personnel.

Going concern

The directors are aware of their duty to assess the ability of the company to continue as a going concern and in particular are sensitive to this requirement given the current uncertain economic outlook. The directors have reviewed the company's forecasts and projections and have taken into account possible changes in trading performance.

After making such enquiries, the directors have a reasonable expectation that the company has adequate resources available to continue in operation for the foreseeable future. Thus, the directors continue to adopt the going concern basis in preparing the financial statements.

Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, in equal annual instalments, over the estimated useful lives of the assets. The rates of depreciation are as follows:

Freehold buildings	5% per annum
Plant and machinery	5% - 33% per annum

Notes to the financial statements (continued)
Year ended 30 September 2018

1. **ACCOUNTING POLICIES (continued)**

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Investments

Investments in joint ventures are measured at cost less impairment.

(iii) Equity instruments

Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and production overheads appropriate to the relevant stage of production. Provision is made for obsolete, slow-moving or defective items where appropriate.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Notes to the financial statements (continued)
Year ended 30 September 2018

1. ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Turnover

Turnover is stated net of VAT and trade discounts and is recognised when collectability is reasonably assured and when title passes to the customer which is generally at the time of shipment (F.O.B. shipping point or at a foreign port for certain export customers).

Notes to the financial statements (continued)
Year ended 30 September 2018

1. **ACCOUNTING POLICIES (continued)**

Employee benefits

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet. A pension asset recognised in the balance sheet is restricted to the surplus recoverable through reduced employer contributions and a liability is recognised to the extent that a deficit represents a constructive or legal obligation.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

2. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the financial statements (continued)
Year ended 30 September 2018

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying the company's accounting policies

The directors are of the view that there are no critical judgements, that have been made in the process of applying the Company's accounting policies and that would have the most significant effect on the amounts recognised in the financial statements.

Key source of estimation uncertainty

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension position in the balance sheet and these assumptions could have a risk of material adjustment to the carrying values of the pension numbers. The assumptions reflect historical experience and current trends for which further details can be seen in note 15.

3. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax.

The geographical analysis of turnover by destination is as follows:

	2018 £'000	2017 £'000
United Kingdom	28,121	24,359
Rest of Europe	33,885	31,664
United States of America	386	100
Other	3,904	2,997
	66,296	59,120

Notes to the financial statements (continued)
Year ended 30 September 2018

4. OPERATING PROFIT

		2018 £'000	2017 £'000
Operating profit is stated after charging:			
Depreciation			
Owned assets		194	184
Cost of stock recognised as an expense		50,046	45,378
Rentals under operating leases:			
Hire of plant and machinery		92	100
Other operating leases		46	42
Auditor's remuneration	- audit of company's annual financial statements	37	40
	- audit of pension scheme financial statements	8	5

No non-audit services were provided by the company's auditor to the company in either year.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2018 £'000	2017 £'000
Directors' emoluments		
Aggregate emoluments (including benefits in kind and excluding pension contributions)	220	207
Company contributions to the money purchase pension scheme	13	12
	233	219

In the current and prior year three directors' emoluments were paid by another group company and not recharged to Haynes UK. This is because it is not practicable to split their remuneration between their services to group companies.

During the year, no directors (2017 - no directors) participated in the defined benefit scheme. Two directors (2017 - three) are members of a money purchase pension scheme.

	2018 £'000	2017 £'000
Highest paid director		
Emoluments (including benefits in kind and excluding pension contributions)	130	122
Company contributions to the money purchase pension scheme	7	7
	137	129

	2018 No.	2017 No.
Average number of persons employed (including directors)		
Manufacturing	43	37
Administration	27	27
	70	64

The average number of persons employed includes agency employees, 18 in manufacturing (2017: 11) and 3 in administration (2017: 3). The monthly average numbers are in line with the Companies Act requirements.

Notes to the financial statements (continued)
Year ended 30 September 2018

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	2018 £'000	2017 £'000
Staff costs during the year (including directors)		
Wages and salaries	2,409	2,254
Social security costs	195	201
Pension costs	95	91
	2,699	2,546

Pension costs include only those items included within operating costs.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2018 £'000	2017 £'000
Current tax		
United Kingdom corporation tax based on profits for the year	1,545	1,164
Prior year adjustment	-	(1)
Total current tax	1,545	1,163
Deferred tax		
Origination and reversal of timing differences	(12)	-
Effects of changes in tax rate	1	-
Total deferred tax	(11)	-
Total tax charge for the year	1,534	1,163

Notes to the financial statements (continued)
Year ended 30 September 2018

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The current tax assessed for the year is lower (2017 - lower) than that resulting from applying the standard rate of corporation tax in the UK of 19.0% (2017 – 19.5%).

The differences are explained below:

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	8,613	6,532
Tax at 19.0% (2017 – 19.5%)	1,636	1,274
Effects of:		
Expenses not deductible for tax purposes	12	7
Pension adjustment	(114)	(117)
Prior year adjustment	-	(1)
Tax charge for the year	1,534	1,163

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

7. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 October 2017	2,134	3,069	5,203
Additions	18	117	135
Disposals	(20)	(73)	(93)
At 30 September 2018	2,132	3,113	5,245
Accumulated depreciation			
At 1 October 2017	555	1,643	2,198
Charge for the year	53	141	194
Disposals	(14)	(36)	(50)
At 30 September 2018	594	1,748	2,342
Net book value			
At 30 September 2018	1,538	1,365	2,903
At 30 September 2017	1,579	1,426	3,005

The historic cost of land not depreciated is £55,852 (2017 - £55,852).

Notes to the financial statements (continued)
Year ended 30 September 2018

8. STOCKS

	2018 £'000	2017 £'000
Finished goods and goods for resale	30,556	21,641

In the opinion of the directors there is no material difference between the book value of stocks and their replacement cost.

9. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £'000	2017 £'000
All amounts are due within one year:		
Trade debtors	14,847	12,838
Amounts owed by group undertakings	55	669
Prepayments	43	49
	14,945	13,556

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £'000	2017 £'000
Trade creditors	2,608	1,832
Amounts owed to group undertakings	5,544	1,309
Corporation tax	736	652
Other creditors including taxation and social security	457	432
Accruals and deferred income	541	593
	9,886	4,818

11. PROVISIONS FOR LIABILITIES

	£'000
Deferred taxation	
Balance at 1 October 2017	209
Deferred tax charge for the year	(11)
Balance at 30 September 2018	198

Full provision for deferred tax has been made:

	2018 £'000	2017 £'000
Capital allowances in advance of depreciation	198	209

The deferred tax liability is payable within 12 months.

Notes to the financial statements (continued)
Year ended 30 September 2018

11. PROVISIONS FOR LIABILITIES (continued)

	2018 £'000	2017 £'000
Fixed asset timing differences	203	209
Short term timing differences - trading	(5)	-
	198	209

The deferred tax liability is payable within 12 months and the deferred tax asset is recoverable within 12 months.

12. CALLED UP SHARE CAPITAL

	2018 £'000	2017 £'000
Called-up, allotted and fully paid		
10,000 ordinary shares of £1 each	10	10

The Company has one class of ordinary shares which carry no right to fixed income.

The company's other reserves are as follows:

- The profit and loss reserve represents cumulative profits or losses, net of dividends paid.
- The other reserve relates to capital contributed by Haynes Holdings Inc. in 2002 and is a non-distributable reserve.

13. CAPITAL COMMITMENTS

There were no capital commitments approved by the directors at 30 September 2018 (2017 - none).

14. OPERATING LEASE COMMITMENTS

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2018 Plant & Machinery £'000	2018 Other £'000	2017 Plant & Machinery £'000	2017 Other £'000
Leases which expire:				
Within one year	0	16	46	40
Within 2 to 5 years	44	24	76	24
	44	40	122	64

Notes to the financial statements (continued)
Year ended 30 September 2018

15. PENSION COMMITMENTS

Defined Contribution Scheme

The company operates one defined contribution pension scheme. The assets of the scheme are held separately from those of the company in funds under the control of trustees.

The total cost charged to the income statement of £95,000 (2017: £91,000) represents contributions payable to these schemes by the company at rates specified in the rules of the scheme.

Defined Benefit Scheme

The company operates a defined benefit pension scheme in the UK. The assets of the plan are held in a separate trustee administered fund. Under the scheme, the employees are entitled to retirement benefits based on final salary as at year of closure to future accrual, increased in line with current legislation until retirement (or earlier withdrawal or death). No other post-retirement benefits are provided. The scheme was closed to future accruals during the year ended 30 September 2010, and at this time all active members became deferred members.

A full actuarial valuation was carried out at 1 April 2017 and updated to 30 September 2018 by a qualified actuary. The major assumptions used for the actuarial valuation were:

	2018	2017
Pension increase rate	3.0%	3.0%
Discount rate	2.8%	2.5%
Retail Price Inflation assumption	3.3%	3.3%
Consumer Price Inflation assumption	2.4%	2.4%

Present values of defined benefit obligation, fair value of assets and defined benefit liability

	2018 £'000	2017 £'000
Fair value of plan assets	15,640	14,807
Present value of defined benefit obligation	(11,461)	(12,145)
Net defined benefit asset	4,179	2,662
Effect of asset ceiling	(4,179)	(2,662)
Recognised defined benefit asset	-	-

Reconciliation of opening and closing balances of the fair value of plan assets

	2018 £'000	2017 £'000
At 1 October	14,807	14,463
Expected return on scheme assets	371	327
Actuarial gain	344	327
Employer contributions	600	600
Benefits paid	(482)	(910)
At 30 September	15,640	14,807

Notes to the financial statements (continued)
Year ended 30 September 2018

15. PENSION COMMITMENTS (continued)

Reconciliation of opening and closing balances of the defined benefit obligation

	2018 £'000	2017 £'000
At 1 October	12,145	12,430
Interest cost	297	274
Remeasurement from experiences	64	352
Remeasurement from changes in assumptions	(563)	(1)
Benefits paid	(482)	(910)
At 30 September	11,461	12,145

The analysis of the scheme assets at the balance sheet date was as follows:

	2018 £'000	2017 £'000
Equities	6,256	6,515
Property	1,722	1,925
Corporate bonds	2,502	1,333
Gilts	5,004	4,590
Cash	156	444
At 30 September	15,640	14,807

Amounts recognised in the profit and loss account and other comprehensive income in respect of the defined benefit scheme are as follows:

	2018 £'000	2017 £'000
Current service cost	-	-
Net interest income	(7)	(6)
Total recognised in profit and loss account	(7)	(6)
Remeasurement recognised in other comprehensive income	607	606
Defined benefit cost	600	600

Amounts recognised in other comprehensive income in respect of the defined benefit scheme are as follows:

	2018 £'000	2017 £'000
Remeasurement of defined benefit obligation	(499)	351
Return on plan assets (excluding amounts included in net interest cost on the recognised defined benefit asset)	(344)	(327)
Change in effect of the asset ceiling (excluding amounts included in net interest cost on the recognised defined benefit asset)	1,450	582
Total recognised in other comprehensive income	607	606

Notes to the financial statements (continued)
Year ended 30 September 2018

16. RELATED PARTY TRANSACTIONS

The company has taken advantage of the disclosure exemptions available in FRS 102 Section 33 in relation to balances and transactions between other wholly-owned entities within the group headed by Haynes International Inc.

17. ULTIMATE PARENT COMPANY

The ultimate parent company and ultimate controlling party of Haynes International Limited is Haynes International Inc., a company registered in the United States of America.

Haynes International Inc. is the parent of the smallest and largest group of companies to prepare consolidated financial statements. Copies of the parent company consolidated financial statements can be obtained from 1020 West Park Avenue, Kokomo, Indianapolis, USA.

18. CONTINGENT LIABILITY

In January 2017 a customer wrote to the company threatening legal action in relation to a historical contract. This has been followed up by claim correspondence in 2018 and early 2019. The company has engaged its legal advisors to respond to the complaint and claim. The company's lawyers continue to correspond with the customer's lawyers. Liability for the claim is disputed and the quantum of the claim remains unclear. Given the circumstances surrounding the claim and the view of the company's lawyers and advisors quantification of any potential outflow is not possible at this time.