

**UKTMP INTERNATIONAL LIMITED**

**Annual report and financial statements**

**Registered number 08948856**

**31 December 2018**

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**UKTMP International Limited  
Company Information**

<b>Director</b>	Ms K R Titmas
<b>Secretary</b>	Ms D H Vanoverschelde
<b>Registered Office</b>	Office 286, Second Floor, Berkeley Square House Berkeley Square London W1J 6BD UK
<b>Registered Number</b>	08948856 (England & Wales)
<b>Independent Auditor</b>	Harmer Slater Limited Statutory Auditor Salatin House 19 Cedar Road Sutton SM2 5DA

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## Strategic report

The director presents their strategic report for the year ended 31 December 2018.

### PRINCIPAL ACTIVITY

The principal activity of the UK resident company in the year under review was that of supplying titanium, carnallite and ilmenite raw materials as well as titanium slag and scrap to the aerospace industry in conjunction with its parent company.

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The director is satisfied with the trading results for the year which have been achieved as a result of the excellent systems and marketing development work, with the assistance of our parent company.

Sales in excess of \$145m have been achieved in a very competitive market which is still subject to a global downturn in demand. The 2% increase in turnover in 2018 compared to the \$142m achieved in 2017 was due to an increase in volume of sponge sold, sponge sales increased in 2018 by \$31m; the increase in volume is due to new customers from China, and new contacts with a customer in the USA and Russia. Sales of Ingots decreased by \$33m for the 2018 year. Ilmenite and Carnalite increased on 2017 and we sold stainless steel which we had not sold previously. There was a decrease in stub sales in 2018 of \$3m from sales in 2017 and we had no slag sales in 2018.

The aerospace industry continues to grow globally, with world traffic growth forecasted to increase by 4.7% per year in the next 20 years. It is forecasted that demand for aircraft is to grow from 2018 to 2037 by 42,700 new planes according to projections made by management and consultants by both Airbus and Boeing. The highest demand is single-aisle airplanes which is 73% of the projected total. UKTMP (our parent company) and UKAD (our business partner) have a guaranteed market share of titanium parts in regard to their principal customers and there is a backlog of planes on the order books.

The main intake of orders is for these single aisle planes, which have a smaller content of titanium. The backlog of orders is still robust at around 12,000 planes for Boeing and Airbus combined. This information is freely available on the website of both companies.

The industrial market continues to be depressed but demand is picking up mainly driven by the increase in supply to the oil and gas and ship building industries. There is more interest in titanium sponge by smelters and we are forecasting further increased sales in this area, we had a good increase in demand during 2018 and expect this to continue.

The geographic distribution of sales for the year was as follows:

Country	%
Europe	53.0
Kazakhstan	14.2
USA	10.4
China	14.9
India	0.3
Russia	7.2
Total	100.0

Since 31 December 2017, the Company had ceased accounting for its 50% investment in UKAD as a joint venture as it no longer had present access to returns from the investment. On 25 June 2018, the Company disposed of its investment back to the vendor, which discharged it from its obligation to repay the vendor loan received at the time of acquisition of the investment.

There are no plans for any significant developments at present.

## Strategic report (continued)

### KEY PERFORMANCE INDICATORS

The Key Performance Indicators used by the Company are Turnover and Operating Profit. The key causes of the movements between 2017 and 2018 have been discussed above.

	2018	2017
	\$000	\$000
Turnover	145,400	142,010
Operating Profit	3,241	2,817

### PRINCIPAL RISKS AND UNCERTAINTIES

The carrying amount of financial assets and liabilities by IFRS 9 measurement category is as follows:

	Note	31 December 2018 \$000	31 December 2017 \$000
<b>Financial assets at amortised cost</b>			
Cash and cash equivalents		617	5,996
Trade and other receivables	11	68,584	42,963
<b>Financial assets at fair value through profit or loss</b>			
Other financial asset	12	-	13,449
<b>Total financial assets</b>		<b>69,201</b>	<b>62,408</b>
<b>Financial liabilities at amortised cost</b>			
Loans and borrowings	14	7,779	18,182
Trade and other payables	15	58,454	48,165
Contract liabilities	2	5,789	-
Tax payable		484	690
<b>Total financial liabilities</b>		<b>72,506</b>	<b>67,037</b>

The Company's activity exposes it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk in regards of the cash flows), credit risk, and liquidity risk. The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise their adverse effects on the financial performance of the Company. The Company does not use derivative financial instruments to hedge risk exposures.

## Strategic report *(continued)*

The principal business risks and uncertainties affecting the Company are considered to be as follows:

### ***Credit risk***

The Company is exposed to credit risk, which is the risk that one party of a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises from financial receivables and cash and cash equivalents.

The Company has developed procedures to ensure that the sale of goods and services is made only to customers with an appropriate credit history. Customers who do not meet the Company's credit requirements may only conduct transactions with the Company on a prepayment basis.

Long credit terms exist as the Aerospace industry has to plan long term for the availability of raw materials and related products used in building an airplane. The raw materials are mined and converted into various products requiring a long cycle of production in order to supply the aerospace industry. The terms can be up to 270 days from the purchase of raw materials to the payment of these goods. An airplane takes a long time on the production line and the cash is only received at various stages along the production line which then releases cash to pay for materials purchased much earlier along the production line.

### ***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Financial indebtedness has decreased from the prior year-end due to the long-term loan being discharged (as the Company was unable to settle the loan) by returning the shares held in UKAD to the vendor. The Company manages its liquidity risk by using short-term (monthly) forecasts on expected cash flows from operating activities.

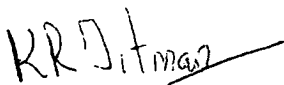
### ***Market risk***

The Company is exposed to the risk of changes in prices for titanium sponge, titanium ingots and magnesium as a result of changes in market conditions. This risk is mitigated as the company purchases most of its inventory from its Parent Company at the price formula which transfers the company's losses arising from commodity price changes to its Parent Company.

An increase in the interest rate will adversely impact the company. The interest rates are reasonably low at the moment but should rates increase this will affect profitability as the cost of financing will become higher.

The Company is unlikely to be impacted by the current uncertainty taking place regarding Brexit. Goods are not transited in or out of the U.K. so no movement across borders takes place. The Company does not trade with any U.K. companies so no clearing of goods or logistical problems will be encountered

**ON BEHALF OF THE BOARD:**



K R Titmas – Director

4 June 2019

## **Director's report**

The director presents her report with the financial statements of the company for the year ended 31 December 2018.

### **DIRECTORS**

The directors who held office during the year were as follows:

K R Titmas

### **STRATEGIC REPORT**

The director has included Future Developments disclosure required by s419(4) in the Strategic Report. It forms part of this report by cross reference.

### **DIVIDENDS**

A dividend of \$NIL was paid during the year under review (2017: \$0.2m).

### **GOING CONCERN**

Information on going concern is given in note 1 to the financial statements.

### **EVENTS AFTER THE FINANCIAL PERIOD**

There have been no significant events between the year end and the date of approval of these financial statements which would require a change to, or a disclosure in, the financial statements.

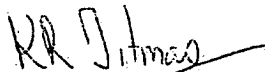
### **STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR**

The director who held office at the date of approval of this director's report confirm that she has taken all the steps that she ought to have taken to make herself aware of any information needed by the auditor for the purposes of their audit and to establish that the auditor is aware of that information. The director is not aware of any relevant audit information of which the auditor is unaware.

### **REAPPOINTMENT OF AUDITORS**

During the year Harmer Slater Limited were appointed as auditors following the resignation of KPMG LLP. In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Harmer Slater Limited as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

### **ON BEHALF OF THE BOARD:**



K R Titmas – Director  
Office 286, Second Floor.  
Berkeley Square House  
Berkeley Square  
London  
W1J 6BD

4 Jun 2019

## **Statement of director's responsibilities in respect of the strategic report, the director's report and the financial statements**

The director is responsible for preparing the strategic report, the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the director 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 director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is 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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



## **Independent auditor's report to the members of UKTMP International Limited**

### **Opinion**

We have audited the financial statements of UKTMP International Limited (the company) for the year ended 31 December 2018 which comprise the Income statement and statement of other comprehensive income, Statement of financial position, Statement of changes in equity, Cash flow statement and related notes, which include a summary of the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has 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.

### **Other information**

The director is 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 any 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 this regard.

## **Independent auditor's report to the members of UKTMP International Limited**

*(continued)*

### **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 Report of the Director for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Director have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

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 material misstatements in the Strategic Report or the Report of the Director.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

### **Responsibilities of director**

As explained more fully in the director's responsibilities statement, the director is 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 director determines 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 director is responsible for assessing 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 director either intends to liquidate the company or to cease operations, or has 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Independent auditor's report to the members of UKTMP International Limited**  
(continued)

**Use of our report**

This report is made solely to the company's member 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 parent company's member 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 parent company and the parent company's member for our audit work, for this report, or for the opinions we have formed.



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Timothy Slater (Senior Statutory Auditor)

For and on behalf of:  
Harmer Slater Limited  
Statutory Auditor

Salatin House  
19 Cedar Road  
Sutton  
Surrey  
SM1 2TD  
UK

4 June 2019

**Income statement and statement of other comprehensive income**  
*for year ended 31 December 2018*

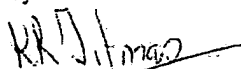
	Note	31 December 2018	31 December 2017
		\$000	\$000
<b>Revenue</b>	<b>2</b>	<b>145,400</b>	<b>142,010</b>
Cost of sales		(135,242)	(133,219)
<b>Gross profit</b>		<b>10,158</b>	<b>8,791</b>
Distribution expenses		(5,785)	(4,895)
Administrative expenses	<b>3,4,5</b>	(1,132)	(1,079)
<b>Operating profit</b>		<b>3,241</b>	<b>2,817</b>
<b>Other income (net)</b>	<b>6</b>	<b>1,160</b>	<b>9,948</b>
Financial income	<b>7</b>	374	-
Financial expenses	<b>7</b>	(959)	(2,541)
<b>Net financial expenses</b>		<b>(585)</b>	<b>(2,541)</b>
Share of loss from joint venture	<b>10</b>	-	(9,381)
<b>Profit before tax</b>		<b>3,816</b>	<b>843</b>
Taxation	<b>8</b>	(456)	(78)
<b>Profit for the year</b>		<b>3,360</b>	<b>765</b>
<b>Total comprehensive income for the year</b>		<b>3,360</b>	<b>765</b>

The accompanying notes form an integral part of these financial statements.

**Statement of financial position**  
*as at 31 December 2018*

	Note	31 December 2018	31 December 2017
		\$000	\$000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	3	-
<b>Total non-current assets</b>		<u>3</u>	<u>-</u>
<b>Current assets</b>			
Inventories	13	9,104	7,071
Trade and other receivables	11	68,584	42,963
Other financial asset	12	-	13,449
Cash and cash equivalents		617	5,996
<b>Total current assets</b>		<u>78,305</u>	<u>69,479</u>
<b>Total assets</b>		<u>78,308</u>	<u>69,479</u>
<b>Equity and liabilities</b>			
Share capital	17	1,671	1,671
Retained earnings		4,131	771
<b>Total equity</b>		<u>5,802</u>	<u>2,442</u>
<b>Current liabilities</b>			
Loans and borrowings	14	7,779	18,182
Trade and other payables	15	58,454	48,165
Contract liabilities	2	5,789	-
Tax payable	8	484	690
<b>Total current liabilities</b>		<u>72,506</u>	<u>67,037</u>
<b>Total liabilities</b>		<u>72,506</u>	<u>67,037</u>
<b>Total equity and liabilities</b>		<u>78,308</u>	<u>69,479</u>

The accompanying notes form an integral part of these financial statements. These financial statements were approved by the board of directors on 4 June 2019 and were signed on its behalf by:



**K R Titmas**  
Director

Company number: 08948856

**Statement of changes in equity**  
*as at 31 December 2018*

	<b>Share capital \$'000</b>	<b>Retained earnings \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 January 2017	1,671	196	1,867
<b>Total comprehensive income for the period</b>			
Profit	-	765	765
Total comprehensive income for the period (restated - see note 24)	-	765	765
Dividend paid for period		(190)	(190)
<b>Balance at 31 December 2017</b>	<b>1,671</b>	<b>771</b>	<b>2,442</b>
	<b>Share capital \$'000</b>	<b>Retained earnings \$'000</b>	<b>Total equity \$'000</b>
Balance at 31 December 2017	1,671	771	2,442
<b>Total comprehensive income for the period</b>			
Profit	-	3,360	3,360
Total comprehensive income for the period	-	3,360	3,360
<b>Balance at 31 December 2018</b>	<b>1,671</b>	<b>4,131</b>	<b>5,802</b>

The accompanying notes form an integral part of these financial statements.

## Cash flow statement

For year ended 31 December 2018

	Note	2018	2017
		\$000	\$000
<b>Cash flows from operating activities</b>			
Profit for the year		3,360	765
Adjustments for:			
Net loss on disposal of investment	6	-	3,501
Depreciation, amortisation and impairment	9	1	-
Fair-value and other gains	6	(1,160)	(13,449)
Finance items	7	585	2,541
Taxation	8	456	78
Share of loss from joint venture	10	-	9,381
		<hr/>	<hr/>
Increase in trade and other receivables	11	3,242	2,817
(Increase)/decrease in inventories	13	(25,621)	(10,642)
Increase in trade and other payables		(2,033)	580
Increase in contract liabilities	2	10,182	16,167
		<hr/>	<hr/>
Cash generated from operations		(8,441)	8,922
Income taxes paid		(662)	-
		<hr/>	<hr/>
<b>Net cash from operating activities</b>		<b>(9,103)</b>	<b>8,922</b>
<b>Cash flows from investing activities</b>			
Purchase of equipment		(4)	-
		<hr/>	<hr/>
<b>Net cash outflow from investing activities</b>		<b>(4)</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Dividend paid		-	(190)
Interest paid		(853)	(868)
Increase/(repayment) of borrowings		4,581	(2,002)
		<hr/>	<hr/>
<b>Net cash from financing activities</b>		<b>3,728</b>	<b>(3,060)</b>
Net (decrease)/increase in cash and cash equivalents		(5,379)	5,862
Effects of exchange rates on cash and cash equivalent		-	33
Cash and cash equivalents at 1 January 2018		5,996	101
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December 2018</b>		<b>617</b>	<b>5,996</b>

The accompanying notes form an integral part of these financial statements.

## Notes

*(forming part of the financial statements)*

### 1. Accounting policies

UKTMP International Limited (the "Company") is a private company limited by shares incorporated, domiciled and registered in England in the UK. The registered number is 08948856 and the registered address is Office 286, Second Floor, Berkeley Square House, Berkeley Square, London. W1J 6BD United Kingdom.

The company financial statements have been prepared and approved by the director in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, with the exception of the implementation of IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers with effect from 1 January 2018, as described below.

#### IFRS 9, Financial instruments

IFRS 9 supersedes IAS 39, Financial instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairments for financial assets and general hedge accounting. The impact of these new requirements on the Company's financial statements are described below. The Company has applied IFRS 9 retrospectively, but under the exemption not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policies.

##### *Classification and measurement of financial assets*

The date of initial application was 1 January 2018. The Company has not applied the requirements of IFRS 9 to instruments that were derecognised prior to 1 January 2018 and has not restated prior years. All financial assets that are within the scope of IFRS 9 are required to be measured at amortised cost or fair value, with movements through other comprehensive income or the income statement on the basis of UKTMP's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

IFRS 9 had the following impact on the Group's assets:

- The Company has elected to designate its equity investment in UKAD that was previously classified as an available-for-sale financial asset as measured at fair value through other comprehensive income (FVTOCI) under IFRS 9.

The Group's trade and other receivables were all classified as financial assets measured at amortised cost under IAS 39. Under IFRS 9, management assessed the business model under which trade receivables are held as being to collect the contractual cash flows. The Company's trade and other receivables continue to be measured at amortised cost under IFRS 9.

##### *Impairment of financial assets*

Impairment of financial assets IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets rather than the incurred credit loss model required under IAS 39. The ECL model requires the Company to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. 12-month ECLs are applied to all financial assets not measured at FVTPL except for net trade receivables which are measured reflecting lifetime ECLs using the simplified approach. An additional ECL allowance of \$0.3 million for trade receivables was recognised on transition to IFRS 9. There were no other transition adjustments arising from the change in impairment basis. The Company has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy. Financial assets managed by the Company consist exclusively of trade and other receivables and cash and cash equivalents.



## **Notes** *(continued)*

### **1. Accounting policies** *(continued)*

#### **IFRS 15, Revenue from contracts with Customers**

IFRS 15 replacing IAS 18, Revenue, provides a single, principle-based approach to the recognition of revenue from all contracts with customers. It focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations are satisfied. The Company adopted IFRS 15 applying the modified retrospective approach. Under IAS 18, the Company recognized sales when the significant risks and rewards attached to the goods were passed on to the customers which usually occurred with the delivery of the product. Under IFRS 15, control of the goods is transferred to the customer at a point in time where delivery of the product is effective. IFRS 15 did not have any impact on the amount or timing of recognition of reported revenue.

There were no other new standards or interpretations effective for the first time for periods beginning on or after 1 January 2018 that had a significant effect on the Company's financial statements.

All amounts are presented to the nearest \$'000. The functional currency is US Dollars given the majority of purchases and sales are made in US Dollars, and the presentational currency adopted is US Dollars.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

#### **1.1 Measurement convention**

The financial statements are prepared on the historical cost basis.

#### **1.2 Going concern**

The director has considered the Company's ability to continue as a going concern and deem it appropriate to prepare the financial statements on the going concern basis.

The Company will continue to have demand for its goods from its business partner, which has a contract guaranteeing supply into the aerospace industry until 2024. The director has considered the position of the aerospace industry and likely demand from the end user and foresee that there will be sufficient demand for at least the next 12 months. In addition the director has reviewed the cash flow projections prepared by the parent company for the 24 months to 31 December 2020 which show a positive cash inflow sufficient to bring the arrears on the intercompany trade receivables up to date over the next five years.

In addition the director has reviewed the extended credit terms granted by a supplier of raw materials and received confirmation of the extended terms agreed by them with the Company. The Company has accepted deferred payments proposed by the Parent Company for amounts that will be paid over a period of five years. The funds received from the Parent Company will in turn enable the Company to pay the supplier in accordance with the extended credit terms.

The Company also continues to have the support of its parent company, from whom it purchases, and there is no indication of any restrictions to the supply of titanium.

#### **1.3 Foreign currency**

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

## Notes (continued)

### 1. Accounting policies (continued)

#### 1.4 Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### 1.5 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt instruments, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

##### *Investments in equity instruments*

The Company has elected to measure investments in equity securities at fair value through other comprehensive income (in the prior year, these were classified as available-for-sale and measured at fair value with changes in fair value recognised in other comprehensive income).

##### *Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses calculated under the expected credit loss model (in the prior year: the incurred credit loss model).

##### *Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

#### 1.6 Derivatives

Derivatives are accounted for at fair value through profit or loss. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period.

## **Notes** *(continued)*

### **Accounting policies** *(continued)*

#### **1.7 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Fixtures and fittings                      3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date

#### **1.8 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition.

#### **1.9 Principles of equity accounting**

##### *Associates*

Associates are all entities over which the Company has significant influence but not control or joint control.

Investments in associates are accounted for using the equity method of accounting (see below), after initially being recognised at cost.

##### *Joint arrangements*

Under IFRS 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Company had one joint venture until 31 December 2017. Interests in joint ventures are accounted for using the equity method (see below), after initially being recognised at cost in the consolidated balance sheet.

##### *Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Company's share of the post-acquisition profits or losses of the investee in profit or loss, and the Company's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 1.10.

## Notes (continued)

### Accounting policies (continued)

#### 1.10 Impairment excluding inventories

##### *Financial assets (including receivables)*

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Until 31 December 2017, a financial asset not carried at fair value through profit or loss was assessed at each reporting date to determine whether there was objective evidence that it was impaired. A financial asset was impaired as objective evidence indicated that a loss event had occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that could be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost was calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continued to be recognised through the unwinding of the discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss was reversed through profit or loss.

An impairment loss in respect of an investment in an associate or a joint venture is calculated as the difference between the carrying amount and its recoverable amount, which is the higher of value in use or fair value less costs of disposal determined as for non-financial assets. Any impairment loss is allocated against the investment as a whole. Any reversal of an impairment loss is recognised as an adjustment to the investment in the joint venture or the associate to the extent that the recoverable amount of the investment increases.

##### *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than inventories, 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.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

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.

## **Notes** *(continued)*

### **Accounting policies** *(continued)*

#### **1.11 Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

#### **1.12 Revenue**

The Company receives revenue for supply of goods to external customers against orders received. The majority of contracts that UKTMPI enters into relate to sales orders containing single performance obligations for the delivery of raw materials and converted metal products. The average duration of a sales order is less than 12 months. Product revenue is recognised when control of the goods is passed to the customer. The point at which control passes is determined by each customer arrangement, but generally occurs on delivery to the customer. Product revenue generally represents net invoice value.

Until 31 December 2017, Revenue from sales of goods was recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods were delivered.

#### **1.13 Expenses**

##### *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

##### *Financing income and expenses*

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

#### **1.14 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

## **Notes** *(continued)*

### **Accounting policies** *(continued)*

#### **1.14** *Taxation (continued)*

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

#### **1.15** *Adopted IFRS not yet applied*

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective in future accounting periods that the group has decided not to adopt early. The most significant of these is IFRS 16, Leases, issued in January 2016 and which will be implemented by the Company from 1 January 2019. The Standard will replace IAS 17, Leases and will require lease liabilities and 'right of use' assets to be recognised on the balance sheet for almost all leases. This is expected to result in an increase in both assets and liabilities recognised. The costs of operating leases currently included within operating costs will be split and the financing element of the charge will be reported within finance expense. The overall impact on earnings is not expected to be material. The undiscounted commitments under non-cancellable operating leases are set out in Note 18. UKTMPI will implement IFRS 16 applying the modified retrospective approach. The right of use asset will be set equal to the lease liability, adjusted for any prepaid or accrued lease payments. On the transition date of 1 January 2019, the company expects to recognise right of use assets and lease liabilities of \$114,000.

## Notes (continued)

### 2 Revenue

The Company derives revenue from the transfer of goods at one point in time as follows:

	31 December 2018	31 December 2017
	\$000	\$000
Sale of titanium, carnallite and ilmenite and related raw materials.	145,400	142,010

The entity is domiciled in the United Kingdom. The amount of its revenue from external customers broken down by location of its customer is as follows:

The geographic distribution of sales for the year was as follows:

	31 December 2018	31 December 2017
	%	%
Europe	53.0	69.6
Kazakhstan	14.2	10.1
USA	10.4	11.5
China	14.9	8.0
India	0.3	0.7
Russia	7.2	-
Japan	-	0.1
	100	100

#### Liabilities related to contract with customers

The Company has recognised liabilities of \$5,789K (31 December 2017: \$nil) in relation to contracts with customers. These are for payments received from customers in advance of the delivery of goods. Revenue of \$nil was recognised in the current reporting period relating to carried-forward contract liabilities.

### 3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	31 December 2018	31 December 2017
	\$000	\$000
Net foreign exchange gain/(loss)	267	(1,673)
Depreciation and amortisation	(1)	-
Operating lease charges	(109)	(24)
Fair value gain on UKAD (note 6)	1,160	13,449
Impairment loss on UKAD (note 6)	-	(3,501)
Tax compliance fees	(18)	(30)

#### Auditor's remuneration:

	31 December 2018	31 December 2017
	\$000	\$000
Previous Auditor's remuneration		127
Current Auditor's remuneration: Audit of financial statements	30	-
Current Auditor's remuneration: non-audit services	2	-
	32	127

## Notes (continued)

### 4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
Management	5	4
	<u>5</u>	<u>4</u>

The aggregate payroll costs of these persons were as follows:

	2018 \$000	2017 \$000
Wages and salaries	290	118
Social security costs	27	6
	<u>317</u>	<u>124</u>

### 5 Directors' remuneration

	2018 \$000	2017 \$000
Directors' remuneration	87	37

### 6 Other income/(costs)

	Note	2018 \$000	2017 \$000
Impairment loss on UKAD	10	-	(3,501)
Fair value gain	12	1,160	13,449
		<u>1,160</u>	<u>9,948</u>

The Company had the ability to put back its investment in UKAD to the vendor as satisfaction for the repayment of the loan taken initially to fund the investment. As at 31 December 2017, the Company reported a financial asset of \$13.4m being the fair value of this option. The loan outstanding balance of \$14.6m was discharged on 25 June 2018 through exercise of the option, resulting in a gain of \$1,160,000 for the period from 1 January 2018 to settlement of the loan. Refer to note 12 for details.



**Notes** *(continued)*

**7 Finance income and expense**

	31 December 2018	31 December 2017
	\$000	\$000
<i>Finance income</i>		
Net foreign exchange gain	374	-
<b>Total finance income</b>	<u>374</u>	<u>-</u>
<i>Finance expense</i>		
Net foreign exchange loss	106	1,673
Notional interest on interest free loan	-	-
Interest paid on other interest-bearing loans and borrowings	853	868
<b>Total finance expense</b>	<u>959</u>	<u>2,541</u>

The Company held an interest-free loan with the previous owner of UKAD, as set out in note 14.

The loan was denominated in Euros. The appreciation of the US dollar against the Euro caused a foreign exchange gain of \$374,000.

**Notes** *(continued)*

**8 Taxation**

**Recognised in the income statement**

	31 December 2018	31 December 2017
	\$000	\$000
Current tax expense		
Current year	456	416
Adjustments in respect of prior years	-	(338)
<b>Current tax expense</b>	<b>456</b>	<b>78</b>
<b>Deferred tax expense</b>	<b>-</b>	<b>-</b>
<b>Total tax expense</b>	<b>456</b>	<b>78</b>

**Reconciliation of effective tax rate**

	31 December 2018	31 December 2017
	\$000	\$000
Profit for the year	3,360	765
Total tax expense	456	78
<b>Profit/(loss) excluding taxation</b>	<b>3,816</b>	<b>843</b>
Tax using the UK corporation tax rate of 19% (2017: 19.25 %)	725	162
Non-deductible expenses	52	2,823
Income not subject to tax	(220)	(2,588)
Exchange difference	(71)	19
Adjustment to tax charge in respect of prior periods	-	(338)
Other timing differences	(30)	-
<b>Total tax expense</b>	<b>456</b>	<b>78</b>

**Factors affecting future tax charges**

A reduction 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.

**Notes** *(continued)*

**9 Property, plant and equipment**

	<b>Fixtures &amp; fittings £000</b>	<b>Total £000</b>
<b><u>31 December 2018</u></b>		
<b>Cost</b>		
Balance at 1 January 2018	1	1
Additions 2018	4	4
	<hr/>	<hr/>
Balance at 31 January 2018	5	5
	<hr/>	<hr/>
<b>Depreciation and impairment</b>		
Balance at 1 January 2018	1	1
Depreciation charge for the year	1	1
	<hr/>	<hr/>
Balance at 31 December 2018	2	2
	<hr/>	<hr/>
<b>Net book value</b>		
At 1 January 2018	-	-
	<hr/>	<hr/>
At 31 December 2018	3	3
	<hr/>	<hr/>
<b><u>31 December 2017</u></b>		
<b>Cost</b>		
Balance at 1 January 2017	1	1
	<hr/>	<hr/>
<b>Depreciation and impairment</b>		
Balance at 1 January 2017	-	-
Depreciation charge for the year	1	1
	<hr/>	<hr/>
Balance at 31 December 2017	1	1
	<hr/>	<hr/>
<b>Net book value</b>		
At 1 January 2017	1	1
	<hr/>	<hr/>
At 31 December 2017	-	-
	<hr/>	<hr/>

**Notes** (continued)

**10 UKAD Investment**

On 24 November 2014, the Company acquired a 50% interest in UKAD (France):

Company	UKAD
Registered Office	Tour Maine Montparnasse 33, Avenue du Maine 75015 Paris
Country of incorporation and operation	France
Principal activity	Production of titanium articles
Ownership interest at 31 December 2018	0%
Ownership interest at 31 December 2017	50%
Class of Shares held	Ordinary

Until 31 December 2017, the Company accounted for this investment as an investment in a joint venture with our share of profit and losses being accounted for as a share of joint venture results.

As from 31 December 2017 and up to disposal on 25 June 2018, the investment has been accounted as a financial asset after the director made the determination that the Company no longer had present access to returns from the UKAD venture.

The table below summarises the movements in the carrying amount of the Company's investments in UKAD:

	2018 \$000	2017 \$000
Balance at beginning of the year	-	12,882
Share of losses for the year	-	(9,381)
Impairment loss	-	(3,501)
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>

The joint venture had largely been loss making since inception and had reported a loss in 2017. When preparing the 2017 financial statements, the director considered UKAD's recurring operating losses as an indicator of impairment; therefore performed an impairment test and recorded an impairment loss of US\$ 3,501,000 in the 2017 financial statements to reduce the carrying amount of the investment to its recoverable amount (deemed to be \$nil).

Following impairment the UKAD investment was reclassified on 31 December 2017 as an available for sale financial asset under IAS 39, then as a financial asset at fair value through other comprehensive income on transition to IFRS 9 on 1 January 2018. The fair value continued to not be materially different from the recoverable amount of nil described above until the disposal of the investment on 25 June 2018.

**Notes** (continued)

**11 Trade and other receivables**

	31 December 2018 \$000	31 December 2017 \$000
Trade receivables due from related parties, gross	47,383	35,869
Other trade receivables, gross	19,744	5,795
Less: provision for impairment of trade receivables	(272)	-
Trade receivables, net	66,855	41,664
Other receivables	926	932
Prepayments	803	367
	<u>68,584</u>	<u>42,963</u>

The amounts due from related parties are interest free and repayable on demand. Payment terms for related party customer buying converted goods are 270 days from delivery and related party converting these goods is 45 days from purchase of raw materials.

The carrying amount of trade and other receivables approximates their fair value.

**12 Other financial asset**

	31 December 2018 \$000	31 December 2017 \$000
Derivative – UKAD put option	-	13,449
	<u>-</u>	<u>13,449</u>

The acquisition of the Company's 50% interest in UKAD was financed by an interest-free loan of EUR 12.5m granted by the vendor, which was initially repayable on or before 30 November 2016 and has subsequently been extended to 31 May 2018, then to 30 November 2018. The loan was secured by the Company's interest in UKAD. Legal title of the UKAD shares had passed to the Company at the execution of the loan agreement.

The Company had the right to put back the UKAD shares to the vendor to discharge its liability under the loan agreement. Considering that the investment was deemed to have a fair value of \$nil (see note 10), the fair value of this option was equal to that of the loan, which at 31 December 2017 was determined to be \$13,449,000 (see note 16). On 25 June 2018, the Company exercised the option and returned the UKAD shares back to the vendor thereby extinguishing its liability.

**13 Inventories**

	31 December 2018 \$000	31 December 2017 \$000
Goods in transit	9,104	7,071
	<u>9,104</u>	<u>7,071</u>

## Notes (continued)

### 14 Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 16.

	31 December 2018	31 December 2017
	\$000	\$000
<b>Non-current liabilities</b>		
Fixed term loan	-	-
<b>Current liabilities</b>		
Fixed term loan	-	14,984
Secured bank facility	7,779	3,198
	<u>7,779</u>	<u>18,182</u>

#### Fixed term loan

On acquiring the Investment in joint venture (UKAD) an interest-free loan of EUR12.5m was granted by the vendor. The interest free loan was for an initial period of two years. The loan was secured by the Investment in UKAD. In line with the requirements of IAS 39, the loan was discounted at a market rate of interest - 5% p.a. The loan was discharged on 25 June 2018.

#### Secured bank facility

The Company has two credit line facilities which are repayable on demand. The collateral for these funds is the goods purchased using the funds received within the credit line and claims arising under contracts that were financed using these credit line funds. Invoices are "pledged" to the bank and upon receipt of funds from the client these pledges are then released.

#### Reconciliation of liabilities arising from financing activities

	31 December 2017	Cash flows	Non-cash changes			31 December 2018
	\$000	\$000	Release of discount \$000	Foreign exchange movement \$000	Repayment in kind \$000	\$000
Fixed term loan	14,984		-	(374)	(14,610)	-
Secured bank facility	3,198	4,581	-	-	-	7,779
<b>Total liabilities from Financing activities</b>	<u>18,182</u>	<u>4,581</u>	<u>-</u>	<u>(374)</u>	<u>(14,610)</u>	<u>7,779</u>

**Notes** *(continued)*

**14 Loans and borrowings** *(continued)*

	31 December 2016	Cash flows	Non-cash changes		31 December 2017
			Release of discount	Foreign exchange movement	
	\$000	\$000	\$000	\$000	\$000
Fixed term loan	13,200	-	-	1,784	14,984
Secured bank facility	5,200	(2,002)	-	-	3,198
<b>Total liabilities from financing activities</b>	<b>18,400</b>	<b>(2,002)</b>	<b>-</b>	<b>1,784</b>	<b>18,182</b>

**15 Trade and other payables**

	31 December 2018 \$000	31 December 2017 \$000
Trade payables	58,264	48,075
Other payables	190	90
	<b>58,454</b>	<b>48,165</b>

## Notes (continued)

### 16 Financial instruments

#### a) Fair value of financial instruments

##### Recognised fair value measurements

As explained in note 12, the Company had recognised an option to return the shares of UKAD to the vendor in repayment of the fixed term loan. The option was classified as a Level 3 financial instrument in the IFRS 13 fair value hierarchy as one or more of the significant inputs was not based on observable market data. The fair value of the instrument was determined by reference to that of the related loan (below) and the investment (note 10).

##### Unrecognised fair value measurements

The director believes the carrying amount of most of the Company's financial assets and liabilities to be a reasonable approximation of fair value and therefore no further disclosure of fair value has been performed for these assets and liabilities.

A material difference had however been identified for the following borrowing at 31 December 2017:

	2018 (\$000)		2017 (\$000)	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
<u>Fixed term loan</u>	-	-	14,984	13,449

The fair value of the loan was based on discounted cash flows using a current borrowing rate taking into account the quality of the collateral securing the loan. It was classified as a level 3 fair value in the fair value hierarchy due to the use of unobservable inputs. Deterioration of the quality of the collateral had caused the rate used to discount the cash flows to reach 12.63% at 31 December 2017.

#### b) Credit risk

##### Financial risk management

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 bank deposits and cash and cash equivalents as well as credit exposures to customers, including outstanding receivables. The Company considers its maximum credit risk at 31 December 2018 to be \$68.6 million (31 December 2017: \$43 million).

The Company has developed procedures to ensure that the sale of goods and services is made only to customers with an appropriate credit history. Customers who do not meet the Company's credit requirements may only conduct transactions with the Company on a prepayment basis.

##### Exposure to treasury-related credit risk

The table represents credit ratings as of December 31 2018 and balances in banks and financial bodies where cash and cash equivalents, bank deposits and restricted cash at December 31, 2018 and December 31, 2017 are placed:

	Rating (Moody's)	31 December 2018 \$000	31 December 2017 \$000
<i>Cash and cash equivalents</i>			
Other secured facility (PKBI)	-	-	13
Bank Secured Facility (SG)	A1	20	5,945
Bank Secured Facility (BCV)	Aa2	597	38
<b>Total cash and cash equivalents</b>		<b>617</b>	<b>5,996</b>



## Notes (continued)

### 16 Financial instruments (continued)

#### Customer-credit risk

The Company has developed procedures to ensure that the sale of goods and services is made only to customers with an appropriate credit history. Customers who do not meet the Company's credit requirements may only conduct transactions with the Company on a prepayment basis.

The concentration of credit risk for trade receivables at the balance sheet date by geographic region was:

	31 December 2018	31 December 2017
	\$000	\$000
<i>Geographic Region</i>		
Europe	4,471	7,249
Kazakhstan	46,105	28,662
USA	7,063	4,800
India	-	953
China	8,176	-
Russia	34	-
<b>Total debtors</b>	<b>65,849</b>	<b>41,664</b>

The carrying amount of trade receivables, measured at amortised cost, represents the maximum credit exposure. We have the security of all the purchases from UKTMP (which makes up the greater amount of the past due figure) and could compensate debt against purchase if the cash flow improves at UKTMP. We can also off set dividends being paid against debt rather than physically pay out cash.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and aging. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts. Historical and forward-looking information is considered to determine the appropriate expected credit loss allowance.

The risk profile of trade receivables based on the Group's provision matrix arising from the ECL is presented below:

	Current	Past due < 30 days	Past due 31-120 days	Past due > 120 days
Expected credit loss rate	0.0%	0.03%	0.17%	1%
Gross trade receivables	25,953	7,038	6,888	27,248
Expected credit losses	0.3	2	12	257

**Notes** *(continued)*

**16 Financial instruments** *(continued)*

Movements in the impairment allowance for trade receivables are as follows:

	31 December 2018 \$000	31 December 2017 \$000
At 1 January under IAS 39		
Restated through opening retaining earnings	-	-
Opening provision for impairment of trade receivables	-	-
Increase during the year	272	-
Receivable written off during the year as uncollectible	-	-
Unused amounts reversed	-	-
Impairment loss during the year	-	-
At 31 December	272	-

## Notes (continued)

### 16 Financial instruments (continued)

#### c) Liquidity risk

##### Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by using short-term (monthly) forecasts on expected cash flows from operating activities.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

2018					
Carrying amount \$000	Contractual Cash Flows				
	Total \$000	1 year or less \$000	1 to < 2 years \$000	2 to < 5 years \$000	
<b>Non-derivative financial liabilities</b>					
Secured bank facility	7,779	9,455	9,455	-	-
Other secured loan	-	-	-	-	-
Trade and other payables	58,454	58,454	58,454	-	-
<b>Total financial liabilities</b>	<b>66,233</b>	<b>67,909</b>	<b>67,909</b>	-	-

2017					
Carrying amount \$000	Contractual Cash Flows				
	Total \$000	1 year or less \$000	1 to < 2 years \$000	2 to < 5 years \$000	
<b>Non-derivative financial liabilities</b>					
Secured bank facility	3,198	3,887	3,887	-	-
Other secured loan	14,984	14,984	14,984	-	-
Trade and other payables	48,165	48,165	48,165	-	-
<b>Total financial liabilities</b>	<b>66,347</b>	<b>67,036</b>	<b>67,036</b>	-	-

#### d) Market risk

##### Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments

The Company is exposed to the risk of changes in prices for titanium sponge, titanium ingots and magnesium as a result of changes in market conditions. The Company is not exposed to material interest rate fluctuations.

##### Foreign currency risk

The Company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

**Notes** (continued)

**16 Financial instruments** (continued)

**31 December 2018**

	<b>Sterling \$000</b>	<b>Euro \$000</b>	<b>US Dollar \$000</b>	<b>Other \$000</b>	<b>Total \$000</b>
Cash and cash equivalents	585	31	-	1	617
Trade receivables	2,224	-	66,360	-	68,584
Other interest-bearing loans and borrowings	-	-	(7,779)	-	(7,779)
Trade and other payables	(146)	-	(58,308)	-	(58,454)
Tax payable	(484)	-	-	-	(484)
Balance sheet exposure	<u>2,179</u>	<u>31</u>	<u>273</u>	<u>1</u>	<u>2,484</u>

**31 December 2017**

	<b>Sterling \$000</b>	<b>Euro \$000</b>	<b>US Dollar \$000</b>	<b>Other \$000</b>	<b>Total \$000</b>
Cash and cash equivalents	29	43	5,924	-	5,996
Trade receivables	1,380	72	41,511	-	42,963
Other interest-bearing loans and borrowings	-	(14,984)	(3,198)	-	(18,182)
Trade and other payables	(96)	-	(48,069)	-	(48,165)
Tax payable	(690)	-	-	-	(690)
Balance sheet exposure	<u>623</u>	<u>(14,869)</u>	<u>(3,832)</u>	<u>-</u>	<u>(18,078)</u>

No calculation is made for movement between the Euro and the US Dollar as the Euro loan has now been repaid and no material trading is done in Euros. No calculation is made for movement between the GB Pound and the US Dollar as all trading is effected in US Dollar and the overhead expenses in GB Pound are considered not material.

**e) Capital management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount in dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is determined as net borrowed funds divided by the total equity amount. Net borrowings are estimated as the total amount of borrowings (including 'short-term borrowings' and 'long-term borrowings' recorded in the statement of financial position) less cash and cash equivalents.

Total capital is determined as 'total equity' recorded in the statement of financial position plus net borrowings. During 2018, the Company's strategy provided for the support of gearing ratio at the level of 50% to 60%.

**Notes** *(continued)*

**16 Financial instruments** *(continued)*

	Note	31 December 2018 \$000	31 December 2017 \$000
Total borrowings	14	7,779	18,182
Minus: cash and cash equivalents		(617)	(5,996)
<b>Net borrowed funds</b>		<b>7,162</b>	<b>12,186</b>
<b>Total owned capital</b>		<b>5,802</b>	<b>2,442</b>
<b>Total</b>		<b>12,964</b>	<b>14,628</b>
<b>Capital gearing ratio</b>		<b>55 %</b>	<b>83 %</b>

**Notes** (continued)

**17 Capital and reserves**

*Share capital*

	<b>Ordinary Shares</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
On issue at 1 January : <i>Issued ordinary shares £1.00 each</i>	1,000,000	1,000,000
On issue at 31 December	1,000,000	1,000,000
	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>\$000</b>	<b>\$000</b>
<i>Allotted and called up</i>		
Ordinary shares of £1 each	1,671	1,671
	<b>1,671</b>	<b>1,671</b>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

**18 Operating lease commitments**

Non-cancellable operating lease rentals are payable as follows:

	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
Less than one year	105	107
Between one and five years	9	124
More than five years	-	-
	<b>114</b>	<b>231</b>

The Company leases the Company's Registered Office in London under an operating lease agreement.

During the year \$109,000 was recognised as an expense in the income statement in respect of operating leases (2017: \$24,000).

**19 Commitments**

*Capital commitments*

The Company had no capital commitments as at 31 December 2018 or 31 December 2017.

## Notes (continued)

### 20 Related parties

#### *Identity of related parties with which the Company has transacted*

Parties are generally considered to be related if the parties are under common control, or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

During the year to 31 December 2018 and the year to 31 December 2017, the Company transacted with its parent company, Ust-Kamenogorsk Titanium and Magnesium Plant JSC, 070017 Ust-Kamenogorsk, Republic of Kazakhstan and UKAD, an entity in which the Company held 50% of the shares until 25 June 2018.

#### *Transactions with key management personnel*

The compensation of key management personnel (including the directors) is as follows:

	Sales to		Administrative expenses incurred from	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Key management emoluments including social security costs	-	-	87	37
	<u>-</u>	<u>-</u>	<u>87</u>	<u>37</u>

#### *Other related party transactions*

The transactions with, and outstanding balances with related parties as of December 31, 2018:

	Sales to		Purchases from	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Parent	18,540	14,720	117,445	89,201
UKAD	-	37,619	-	197
	<u>18,540</u>	<u>52,339</u>	<u>117,445</u>	<u>89,398</u>

	Loan and receivables outstanding		Payables outstanding	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Parent	48,661	29,571	-	-
UKAD	-	7,208	-	164
	<u>48,661</u>	<u>36,779</u>	<u>-</u>	<u>164</u>

## **Notes** *(continued)*

### **21 Accounting estimates and judgements**

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- Classification of investment in UKAD until the date of disposal (see note 10).
- The judgements made with respect to applying the going concern assumption are set out in Note 1.2 to the financial statements.
- A majority of the Company's accounts receivable are derived from sales to a number of customers throughout the world. In order to monitor potential credit losses, the company performs ongoing credit evaluations of the customers' financial condition. An allowance for doubtful debts is maintained for potential credit losses based upon management's assessment of the expected collectability of all accounts receivable. The allowance for doubtful accounts is reviewed periodically to assess the adequacy of the allowance. In making this assessment, management takes into consideration customer circumstances and make judgements as to the potential impact of prevailing economic conditions. The actual level of debt collected may differ from the estimated levels of recovery and could impact future operating results positively or negatively. As at 31 December 2018 the company's current trade receivables were \$67,127,000 against which \$272,000 was provided for impairment.

### **22 Ultimate parent company and parent company of larger group**

The Company is a subsidiary undertaking of Ust-Kamenogorsk Titanium and Magnesium Plant JSC which is the ultimate parent company incorporated in Kazakhstan.

The largest group in which the results of the Company are consolidated is that headed by Ust-Kamenogorsk Titanium and Magnesium Plant JSC, 070017 Ust-Kamenogorsk, Republic of Kazakhstan. The consolidated financial statements of these groups are available to the public.

The ultimate controlling party is Douglas Trust, a discretionary trust based in Zurich, Switzerland.

### **23 Events after balance sheet date**

There have been no significant events between the year end and the date of approval of these financial statements which would require change to, or disclosure in, the financial statements.