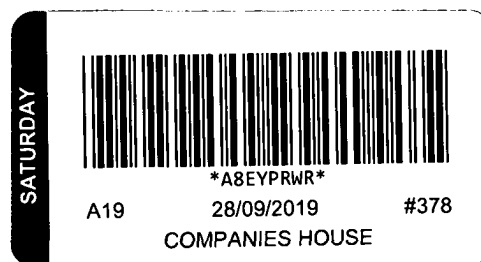


Registered number: 00961050

AMG ALPOCO UK LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**



AMG ALPOCO UK LIMITED

COMPANY INFORMATION

Directors	K Lawson L M Scaife
Company secretary	T R C Palmer
Registered number	00961050
Registered office	C/O AMG Superalloys UK Limited Fullerton Road Rotherham South Yorkshire S60 1DL
Independent auditors	KPMG LLP Chartered Accountants 1 Sovereign Square Sovereign Street Leeds LS1 4DA
Solicitors	DLA Piper UK LLP 1 St Paul's Place Sheffield S1 2JX

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AMG ALPOCO UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their strategic report for the year ended 31 December 2018.

REVIEW OF BUSINESS

The Company Statement of Profit or Loss for the year is set out on page 11. Capital expenditure was \$452,000 (2017 - \$343,000).

The Company's key financial performance indicators for the year were as follows:

	2018 \$000	2017 \$000
Revenue	44,647	41,625
Profit before tax	3,958	2,956
Total equity	9,321	8,170
EBITDA	4,532	3,429
Return on capital employed	86.2%	52.1%

EBITDA is calculated in accordance with the ultimate parent company's guidelines on reporting actual performance. This is calculated as the operating profit add back depreciation and amortisation and excludes management services fees \$nil (2017: \$nil) and exceptional items \$nil (2017: \$nil). Return on capital employed is calculated using a two point average for capital employed based on the opening and closing balance sheet. Capital employed is calculated as shareholder funds less cash and cash pooling receivable.

Overall the performance for the year was considered very good by the directors with profitability further increasing in 2018 to an EBITDA of \$4.5m.

Sales revenues have increased by \$3.0m partly due to the increase in the London Metal Exchange (LME) from \$1,968 per tonne in 2017 to \$2,110 per tonne (\$1.8m in 2018), a 1% increase in sales volumes and an improvement in the product mix towards premium products. The company has continued its strategy to increase its focus on value added products and industries.

Profit before tax and EBITDA have been positively impacted by the increased sales volumes and an improvement in the mix towards premium products.

The significant improvement to return on capital employed has been due to the improved profitability and improved working capital in the year but also due to the stepped change in working capital which took place part way through 2017 having a full year impact in 2018 on capital employed.

Following the 2016 EU referendum, the invoking of Article 50 of the Treaty of the European Union and the subsequent Brexit negotiations the Company has not been adversely impacted. The company's local operating costs have been reduced by the devaluation of sterling but partially offset by the reduced value of sterling sales. This is discussed in more detail in the BREXIT section of this report.

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Principal risks and uncertainties

The management of the business is subject to a number of risks. The key business risks affecting the Company are considered to relate to overseas competitors, currency exchange and metal price volatility.

Competition

The metals industry is highly competitive on a worldwide basis. Competition is primarily based on price, quality and timely delivery. In recent years, price competition has been strong as a result of excess capacity in certain products. New entrants may also increase competition in the powder industry, which could adversely affect the Company.

Currency exchange and metal price volatility

The Company's functional currency is US Dollars. A significant proportion of the Company's raw material purchases and sales are in US Dollars. However, the Company has exposures to purchases and sales made in Sterling and sales made in Euros. The Company has developed policies to manage effectively its currency exposures and minimise the risks of currency fluctuations. The Company has exposures to changes in the price of aluminium, which is publicly traded on the London Metal Exchange. The Company monitors and manages its exposures to aluminium price risk and has a hedging policy with the aim of minimising the risks of price fluctuations. The foreign currency and metal hedging process is performed by the Company's parent company, AMG Superalloys UK Limited.

Customer risk

The Company is exposed to the risk of customers defaulting on trade debtors or not performing on their contracts. The downturn in the economy over recent years compounds this risk as once sound companies may fail quickly because of existing leverage or lack of financing options. To mitigate this risk, the Company has set credit limits for its customers, which it closely monitors and acts accordingly should circumstances arise.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by managing cash generation by its operations. In addition, the Company's ultimate parent company has banking facilities in place, in the event further cash flow is required.

Brexit

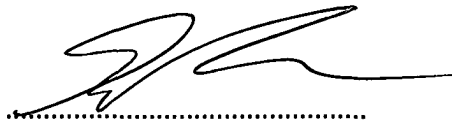
Since the 2016 referendum where the UK voted to leave the European Union the company has been preparing for the proposed exit. As at the time of writing this report a deal has not yet been agreed. This uncertainty has made it more difficult for the company to plan and assess the financial impact of Brexit. The directors' and senior management team's latest assessment of the risks and uncertainties of Brexit are summarised below:

- Currency – as the Company's functional currency is US Dollars the weakening in sterling has positively impacted the statement of profit and loss since the referendum result. The net saving for the year ended 31 December 2018 was \$384k.
- Customers – as and when required the Company is in communication with its customers on an individual basis. If tariffs are imposed on our goods then pricing discussions will take place with customers on an individual basis. Our customers are aware of potential issues in goods being delayed from the UK and into the EU. We believe that short delays may be possible but that these would not be significant to warrant warehousing of stock in Europe or have a significant impact to customers.
- Supply chain – the Company purchases goods and services across the world but its exposure in Europe is limited so the risk of delays in deliveries from Europe is considered small.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

- Indirect taxes – the financial impact is dependent upon whether there is a hard and soft Brexit. If there is a hard Brexit and World Trade Organisation (WTO) tariffs applied then the company would be impacted by an increase in duty costs of approximately \$585k until favourable trade agreements came into force. If a full soft Brexit occurred and trade agreements were negotiated then there would be no financial impact.
- Indirect taxes – the Company avails itself of all available duty reliefs programmes for custom duties and has increased its authorisation limits to reflect any changes following Brexit.
- Administration – the Company already sells across the world so already has the systems in place to deal with the increased administration of European sales being treated as full exports.
- REACH registrations – the Company has a number of REACH registrations which will need to be transferred to an only representative in order to be able to import and export registered products from the EU. A draft contract has been agreed with an only representative but this can only be signed once Brexit occurs. We would then have to apply for the equivalent registrations under new UK regulations which will mirror the European REACH registrations.
- Impairment of assets risk – this has been assessed and no assets are considered to be impaired as at the statement of financial position date.

This report was approved by the board and signed on its behalf by



.....
T R C Palmer
Secretary
Date: 25 September 2019

AMG ALPOCO UK LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors present their report and the financial statements for the year ended 31 December 2018.

Principal activity

The principal activity of the Company is the manufacture of aluminium powder and aluminium powder alloys.

Dividends

The directors recommended no final dividend be paid.

The total distribution for the year ended 31 December 2018 is \$2,000,000 (2017: \$nil).

Directors

The directors who served during the year and to the date of signature of these accounts were:

K Lawson
L M Scaife

Future developments

The Company continues to review a number of projects which the directors believe will lead to the development of new products which are forecasted to continue to improve the profitability of the Company.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, KPMG LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 25 September 2019 and signed on its behalf.



T R C Palmer
Secretary

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors are responsible for preparing the directors' report and the financial statements, in accordance with applicable law.

Company law requires the directors 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 (IFRS) as adopted by the EU.

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 the financial statements, the directors are 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 IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 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 AUDITORS' REPORT TO THE MEMBERS OF AMG ALPOCO UK LIMITED

Opinion

We have audited the financial statements of AMG AlpoCo UK Limited ("the company") for the year ended 31 December 2018 which comprise the Statement of Profit or Loss, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows, and related notes, including the accounting policies in note 1. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- 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 International Financial Reporting Standards 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of goodwill¹ and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AMG ALPOCO UK LIMITED

that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you 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 these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

AMG ALPOCO UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AMG ALPOCO UK LIMITED

The purpose of our audit work and to whom we owe our responsibilities

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.

Claire Gallimore

Claire Gallimore (Senior statutory auditor)

for and on behalf of

KPMG LLP

Chartered Accountants

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

26 September 2019

AMG ALPOCO UK LIMITED

**STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 \$000	2017 \$000
Revenue	2	44,647	41,625
Cost of sales		(39,448)	(37,458)
Gross profit		<u>5,199</u>	<u>4,167</u>
Other operating income	3	32	32
Administrative expenses		(1,117)	(1,143)
Profit from operations		<u>4,114</u>	<u>3,056</u>
Finance income	5	82	24
Finance expense	5	(238)	(124)
Profit before tax	6	<u>3,958</u>	<u>2,956</u>
Tax expense	7	(747)	(575)
Profit for the year		<u><u>3,211</u></u>	<u><u>2,381</u></u>

AMG ALPOCO UK LIMITED

**STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

		2018 \$000	2017 \$000
Profit for the year		3,211	2,381
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension schemes	20	(74)	89
Tax relating to items that will not be reclassified	7	14	(15)
Other comprehensive income for the year, net of tax		<u>(60)</u>	<u>74</u>
Total comprehensive income		<u><u>3,151</u></u>	<u><u>2,455</u></u>

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

		2018 \$000	2017 \$000
ASSETS			
NON CURRENT ASSETS			
Intangible assets	8	16	17
Property, plant and equipment	9	2,664	2,650
Deferred tax	19	54	48
		<hr/>	<hr/>
		2,734	2,715
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories	10	1,543	1,695
Trade and other receivables	11	19,605	17,681
Cash and cash equivalents	12	445	539
		<hr/>	<hr/>
		21,593	19,915
		<hr/>	<hr/>
TOTAL ASSETS			
		<hr/>	<hr/>
		24,327	22,630
		<hr/>	<hr/>

AMG ALPOCO UK LIMITED
REGISTERED NUMBER: 00961050

STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER 2018

		2018	2017
		\$000	\$000
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	13	837	837
Other reserves	14	(258)	(198)
Retained earnings		8,742	7,531
TOTAL EQUITY		9,321	8,170
LIABILITIES			
NON CURRENT LIABILITIES			
Trade and other payables	15	48	80
Pension liability	20	310	284
Deferred tax	19	100	132
		458	496
CURRENT LIABILITIES			
Trade and other payables	15	13,788	13,666
Corporation tax	16	760	298
		14,548	13,964
TOTAL LIABILITIES		15,006	14,460
TOTAL EQUITY AND LIABILITIES		24,327	22,630

The financial statements were approved by the Board of Directors on 25 September 2019 and were signed on its behalf by:


.....
K Lawson
Director

AMG ALPOCO UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Share capital \$000	Other reserves \$000	Retained earnings \$000	Total equity \$000
At 1 January 2017	837	(272)	5,150	5,715
Profit for the year	-	-	2,381	2,381
Total comprehensive income for the year	-	-	2,381	2,381
Actuarial gains on defined benefit schemes	-	89	-	89
Tax effect of amounts in other comprehensive income	-	(15)	-	(15)
Total contributions by and distributions to owners	-	74	-	74
At 31 December 2017	837	(198)	7,531	8,170
At 1 January 2018	837	(198)	7,531	8,170
Profit for the year	-	-	3,211	3,211
Total comprehensive income for the year	-	-	3,211	3,211
Dividends	-	-	(2,000)	(2,000)
Actuarial losses on defined benefit schemes	-	(74)	-	(74)
Tax effect of amounts in other comprehensive income	-	14	-	14
Total contributions by and distributions to owners	-	(60)	(2,000)	(2,060)
At 31 December 2018	837	(258)	8,742	9,321

AMG ALPOCO UK LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 \$000	2017 \$000
Cash flows from operating activities		
Profit for the year	3,211	2,381
	<hr/>	<hr/>
	3,211	2,381
Adjustments for		
Depreciation of property, plant and equipment	417	372
Amortisation of intangible fixed assets	1	1
Finance costs	156	100
Loss on sale of property, plant and equipment	69	15
Income tax expense	747	575
	<hr/>	<hr/>
	4,601	3,444
Movements in working capital:		
Increase in trade and other receivables	(482)	(7,167)
Decrease in inventories	152	431
(Decrease)/increase in trade and other payables	(324)	2,543
(Decrease)/increase in provisions and employee benefits	(41)	38
Decrease in deferred government grants	(32)	(32)
	<hr/>	<hr/>
Cash generated from/ (used in) operations	3,874	(743)
Interest paid	(53)	(25)
Income taxes paid	(308)	(277)
	<hr/>	<hr/>
Net cash from/ (used in) operating activities	3,513	(1,045)
	<hr/>	<hr/>
Cash flows used in investing activities		
Purchases of property, plant and equipment	(452)	(343)
Sale of property, plant and equipment	(48)	12
	<hr/>	<hr/>
Net cash used in investing activities	(500)	(331)
	<hr/>	<hr/>

AMG ALPOCO UK LIMITED

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	\$000	\$000
Cash flows (used in)/ from financing activities		
Cash pooling arrangements	(1,442)	1,514
Net cash pooling interest received/ (paid)	335	(65)
Dividend paid	(2,000)	-
Net cash (used in)/ from financing activities	(3,107)	1,449
Net cash (decrease)/ increase in cash and cash equivalents	(94)	73
Cash and cash equivalents at the beginning of year	539	466
Cash and cash equivalents at the end of the year	445	539

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies

1.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union ('IFRS') and in accordance with the Companies Act 2006. The financial statements have been prepared under the historical cost convention except for the defined benefit liability which is measured at fair value of the plan assets less the present value of the defined obligation.

1.2 Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position have been set out in the Strategic Report. In addition, the Strategic Report also sets out the principal risks and uncertainties. A going concern assessment has been made by the directors with reference to the latest financial performance of the Company, 2019, 2020 and 2021 forecasts and available cash liquidity. 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 of accounting in preparing the annual financial statements.

1.3 Revenue

The Company's contracts for goods sold typically contain a single performance obligation. The timing of when a customer obtains control over goods sold varies depending on the individual terms of the sales agreement. In satisfying the Company's performance obligation to its customers, transfer of control typically occurs when title and risk of loss pass to the customer. In the case of export sales, control of the goods sold may pass when the product reaches a foreign port. Invoices are generally issued according to contractual terms and are usually payable within 30-90 days. The transaction price of goods sold is typically based on contractual terms or market pricing and is not subject to variable consideration.

IFRS 15 became effective for the Company on 1 January 2018. The impact of adopting IFRS 15 is discussed in detail in note 27. Prior to the adoption of IFRS 15, revenue was recognised upon transfer of the risks and rewards of ownership, and in accordance with terms of shipment using Incoterms 2010. Revenue represented amounts invoiced to customers excluding discounts, rebates, VAT and other sales taxes or duty. Transfer of risks and rewards usually occurs when title and risk of loss pass to the customer. In the case of export sales, title may not pass until the product reaches a foreign port.

Where consignment stock arrangements are in place, revenue is recognised upon withdrawal from consignment by the customer or, where relevant, on expiry of fixed contractual term.

1.4 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Development costs associated with the registration of substances relating to the Registration, Evaluation, Authorisation & Restriction of Chemicals (REACH) regime are capitalised as intangible assets as the expenditure is incurred. Costs include any testing and documentation costs, legal fees and registration costs associated with the registration of the substances.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.5 Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the statement of profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to the statement of profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in the statement of profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

1.6 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the statement of financial position dates and any adjustment to tax payable in respect of previous periods.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Deferred taxation

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. Deferred tax is not recognised for the following temporary differences:

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

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 statement of financial position date. 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. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised directly in equity is recognised in equity and not in the statement of other comprehensive income. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

1.7 Property, plant and equipment

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

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognised in the statement of profit or loss. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Freehold property	4% straight line
Plant, machinery and fittings	10% straight line

1.8 Leasing

Rentals under operating leases are charged to the statement of profit or loss on a straight line basis over the lease's term. There were no lease arrangements classified as finance leases as of 31 December 2018 (2017 - none).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.9 Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, investments in subsidiaries and associates and trade and other payables.

Trade and other receivables

Trade and other receivables are recorded at the invoiced amount. The Company provides an allowance for impairment for known and estimated potential losses arising from sales to customers based on a periodic review of these financial statements. When the Company is satisfied that no recovery of the amount is possible then the amount is written off against the trade receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of 90 days or less.

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.

Trade and other payables

Deferred income as well as trade and other payables are accounted for at cost.

1.10 Derivative financial instruments

The Company does not have any derivative financial instruments as at 31 December 2018 (2017 - none).

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct material and labour costs together with the relevant overheads on the basis of normal activity levels. Allowance is made for obsolete, slow-moving or defective items where appropriate.

Inventories held under consignment arrangements are reviewed regularly in order to assess whether the substance of the arrangements is such that those inventories constitute assets which should be reflected in the statement of financial position.

1.12 Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of profit or loss when incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends, has the technical ability and has sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Other development expenditure is recognised in the statement of profit or loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.13 Foreign currencies

These financial statements are presented in US Dollars, which is the Company's functional and presentation currency and all amounts are rounded to the nearest thousand dollars (\$000) except where otherwise indicated. The determination of functional currency is based on appropriate economic and management indicators.

Transactions denominated in foreign currencies are initially translated to dollars at the rates ruling at the dates of the transactions. Profits and losses on settlements during the year are recognised in the statement of profit or loss.

At the statement of financial position date, monetary assets and liabilities denominated in foreign currencies are retranslated to dollars at the rate of exchange ruling at the statement of financial position date and the resultant exchange differences are recognised in the statement of profit or loss. The exchange rate as of 31 December 2018 was USD \$1 = £0.785.

1.14 Employee benefit costs

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of profit or loss as incurred.

Defined benefit plan

The Company participates in the AMG UK Group 2006 Pension Plan ('2006 Pension Plan') which includes a defined benefit arrangement. The defined benefit arrangement closed on 31 May 2006 to all members.

The Company's obligation in respect of defined pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service to the date of the scheme closure. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted to arrive at the net pension obligation or asset. The discount rate used is the yield at the statement of financial position date on AA credit rated bonds that have maturity dates approximating the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. The net obligation or asset recognised in the statement of financial position is the present value of the defined benefit obligation less the fair value of the plan assets.

The charge to the statement of profit or loss is allocated between an operating charge and net finance expense or income. The operating charge reflects the service cost which is spread systematically over the working lives of the employees. The net finance charge reflects the unwinding of the discount applied to the liabilities of the plan, offset by the expected return on the assets of the plan, based on conditions prevailing at the start of the year.

Actuarial valuations are carried out by an independent actuary as determined by the Trustees at intervals of not more than three years, to determine the rates of contribution payable. The pension cost is determined on the advice of the group's actuary, having regard to the results of these Trustee valuations. In any intervening years, the actuary reviews the continuing appropriateness of the contributions rates.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.15 Use of estimates and judgements

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

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

More information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 25: Accounting estimates and judgements.

1.16 Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it is earned, using the effective interest method.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in the statement of profit and loss in the year in which they are incurred, except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Such costs are capitalised as part of the cost of that asset, when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably.

1.17 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a Company of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- the Company retains the right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. Accounting policies (continued)

1.18 Provisions

A provision is recognised in the statement of financial position 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.

1.19 Impairment excluding inventories and deferred tax assets

The carrying amounts of the Company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment, a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. Revenue

IFRS 8 requires operating segments to be identified on the basis of the internal financial information reported to the Chief Operating Decision Maker ("CODM"). The Company's CODM is deemed to be the Chief Executive Officer, who is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. The CODM assesses profit performance using profit before taxation measured on a basis consistent with the disclosure in the Company accounts.

The Company reports on one reportable segment:

- Aluminium - manufacture and supply of aluminium powder and aluminium powder alloys.

All Company revenues are received for the provision of goods; no revenues are received in relation to the provision of services.

The following is an analysis of the Company's revenue for the year from continuing operations:

	2018 \$000	2017 \$000
Sale of goods	44,647	41,625
	<u>44,647</u>	<u>41,625</u>

Analysis of revenue by country of destination:

	2018 \$000	2017 \$000
United Kingdom	21,211	20,214
Rest of Europe	12,840	11,568
Rest of the world	10,596	9,843
	<u>44,647</u>	<u>41,625</u>

The Company's non-current assets were all located within the UK for 2018 and 2017.

Timing of revenue recognition:

	2018 \$000	2017 \$000
Goods transferred at a point in time	44,647	41,625
	<u>44,647</u>	<u>41,625</u>

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. Other operating income

	2018	2017
	\$000	\$000
Government grants	32	32
	<u>32</u>	<u>32</u>

4. Employees and directors

	2018	2017
	\$000	\$000
Wages and salaries	2,568	2,475
Social security costs	240	234
Other pension costs	168	242
	<u>2,976</u>	<u>2,951</u>

The average monthly number of employees during the year was as follows:

	2018	2017
Production	55	51
Sales and administration	3	3
	<u>58</u>	<u>54</u>

	2018	2017
	\$000	\$000
Aggregate emoluments	1,656	1,235
Company contributions paid to defined contribution scheme	<u>54</u>	<u>53</u>

There are two directors accruing benefits under a defined contributions scheme (2017 - two). All directors of the Company are considered to have performed qualifying services to the company and their remuneration is disclosed above as total remuneration for services to the AMG Advanced Metallurgical Group N.V. group. This amount is paid by the Company's immediate parent company, AMG Superalloys UK Limited. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the holding and fellow subsidiary companies.

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4. Employees and directors (continued)

The amounts paid in respect of the highest paid director were as follows:

	2018 \$000	2017 \$000
Aggregate emoluments	1,122	785
Company contributions paid to defined contribution scheme	34	35
	<u> </u>	<u> </u>

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

	2018 \$000	2017 \$000
Finance income		
Interest receivable from cash pooling arrangements	82	24
Total finance income	<u>82</u>	<u>24</u>
Finance expense		
Bank interest payable	54	25
Interest payable to cash pooling arrangements	177	90
Net pension interest payable	7	9
Total finance expense	<u>238</u>	<u>124</u>
Net finance income recognised in profit or loss	<u>(156)</u>	<u>(100)</u>

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

6. Profit before tax

	2018	2017
	\$000	\$000
Cost of inventories recognised as expense	30,365	27,512
Depreciation - owned assets	417	372
Amortisation charges	1	1
Loss on disposal of fixed assets	69	14
Auditors' remuneration - Fees payable to the Company's auditors and their associates for the audit of the Company's financial statements	21	24
Operating leases	14	37
	<u> </u>	<u> </u>

7. Tax expense**Income tax recognised in profit or loss**

	2018	2017
	\$000	\$000
Current tax		
Current tax on profits for the year	773	590
Adjustments in respect of prior years	(2)	-
Total current tax	<u>771</u>	<u>590</u>
Deferred tax expense		
Origination and reversal of timing differences	(19)	(20)
Adjustments in respect of prior years	(5)	5
Total deferred tax	<u>(24)</u>	<u>(15)</u>
	<u>747</u>	<u>575</u>
	<u> </u>	<u> </u>
Total tax expense		
Tax expense	747	575
	<u>747</u>	<u>575</u>
	<u> </u>	<u> </u>

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. Tax expense (continued)**Income tax recognised in profit or loss (continued)**

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2018	2017
	\$000	\$000
Profit for the year	3,211	2,381
Income tax expense	747	575
	<hr/>	<hr/>
Profit before income taxes	3,958	2,956
Tax using the Company's domestic tax rate of 19% (2017:19.25%)	752	569
Expenses not deductible for tax purposes	-	4
Adjustments to tax charge in respect of prior periods	(7)	(1)
Rate adjustment for deferred tax	2	3
	<hr/>	<hr/>
Total tax expense	747	575
	<hr/>	<hr/>

Income tax recognised in other comprehensive income

	2018	2017
	\$000	\$000
Actuarial gains/ (losses) on defined benefit schemes	14	(15)
	<hr/>	<hr/>
	14	(15)
	<hr/>	<hr/>

8. Intangible assets

	Development costs
	\$000
Cost	
At 1 January 2017	19
	<hr/>
At 31 December 2017	19
	<hr/>
At 31 December 2018	19
	<hr/>
	Development costs

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. Intangible assets (continued)

	\$000
Accumulated amortisation and impairment	
At 1 January 2017	2
At 31 December 2017	<u>2</u>
Charge for the year	1
At 31 December 2018	<u><u>3</u></u>
Net book value	
At 1 January 2017	17
At 31 December 2017	17
At 31 December 2018	<u><u>16</u></u>

In 2013 the Company capitalised certain costs relating to the Registration, Evaluation, Authorisation & Restriction of Chemicals (REACH). These are amortised over 20 years.

9. Property, plant and equipment

	Freehold property \$000	Plant and machinery \$000	Fixtures and fittings \$000	Total \$000
Cost				
At 1 January 2017	3,684	13,970	306	17,960
Additions	-	343	-	343
Disposals	-	(104)	-	(104)
At 31 December 2017	<u>3,684</u>	<u>14,209</u>	<u>306</u>	<u>18,199</u>
Additions	-	444	8	452
Disposals	-	(67)	-	(67)
At 31 December 2018	<u><u>3,684</u></u>	<u><u>14,586</u></u>	<u><u>314</u></u>	<u><u>18,584</u></u>

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

9. Property, plant and equipment (continued)

	Freehold property \$000	Plant and machinery \$000	Fixtures and fittings \$000	Total \$000
Accumulated depreciation and impairment				
At 1 January 2017	2,739	12,209	306	15,254
Charge owned for the year	40	332	-	372
Disposals	-	(77)	-	(77)
At 31 December 2017	2,779	12,464	306	15,549
Charge owned for the year	39	377	1	417
Disposals	-	(46)	-	(46)
At 31 December 2018	2,818	12,795	307	15,920
Net book value				
At 1 January 2017	945	1,761	-	2,706
At 31 December 2017	905	1,745	-	2,650
At 31 December 2018	866	1,791	7	2,664

The Company did not have any borrowing costs to capitalise during the year ended 31 December 2018 (2017: \$nil).

Securities

At 31 December 2018, the Company's land and buildings and plant and machinery are being pledged against financing loans and revolving credit facility taken out by AMG Advanced Metallurgical Group N.V., the Company's ultimate parent company. Please refer to note 22.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

10. Inventories

	2018	2017
	\$000	\$000
Raw materials	345	548
Finished goods and goods for resale	1,198	1,147
	<u>1,543</u>	<u>1,695</u>

The write down of inventories to net realisable value amounted to \$14,852 (2017: \$117,722) and the provision charged for slow-moving inventories amounted to \$93,626 (2017: \$101,485).

Securities

At 31 December 2018, the Company's inventories are being pledged against financing loans and revolving credit facility taken out by AMG Advanced Metallurgical Group N.V., the Company's ultimate parent company. Please refer to note 22.

11. Trade and other receivables

	2018	2017
	\$000	\$000
Current:		
Trade receivables	1,932	1,994
Receivables from affiliates	13,338	13,262
Other receivables	1,369	954
Prepayments	97	43
Cash pooling	2,869	1,428
	<u>19,605</u>	<u>17,681</u>

The carrying amount of trade receivables approximates their fair value. Trade receivables are non-interest bearing and are generally on 30 to 90 days terms.

All amounts within trade and other receivables are expected to be recovered within 12 months.

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Trade and other receivables (continued)

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

	Gross 2018 \$000	Gross 2017 \$000
Current - not yet due	2,054	1,155
0 - 30 days	(127)	841
More than 30 days due	5	(2)
	<u>1,932</u>	<u>1,994</u>

The total bad debt provision recorded at 31 December 2018 was \$nil (2017: \$nil).

Factoring of receivables

As of 31 December 2018, the Company had total receivables factored and outstanding of \$2,689,000 (2017: \$2,071,000). The Company sold receivables of \$25,178,000 (2017: \$11,033,000) throughout the year and incurred cost of \$99,000 (2017: \$88,000) in conjunction with the sales of these receivables of which \$54,000 (2017: \$25,000) were included in finance costs and \$45,000 (2017: \$63,000) were recorded in revenue. Under the facility, the Company continues to collect the receivables from the customer but retains no interest or risk in the receivables therefore, the Company has derecognised the receivables.

Securities

At 31 December 2018, the Company's trade and other receivables are being pledged against financing loans and revolving credit facility taken out by AMG Advanced Metallurgical Group N.V., the Company's ultimate parent company. Please refer to note 22.

12. Cash and cash equivalents

	2018 \$000	2017 \$000
Bank accounts	<u>445</u>	<u>539</u>

At 31 December 2018, the Company did not have borrowing facilities (2017 - \$nil). Funding, if required, is provided by the Company's parent company, AMG Superalloys UK Limited.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

13. Share capital**Authorised**

	2018 Number	2018 \$000	2017 Number	2017 \$000
Shares treated as equity				
Ordinary shares of £1.00 each	436,037	837	436,037	837
	<u>436,037</u>	<u>837</u>	<u>436,037</u>	<u>837</u>

Shares treated as liability**Issued and fully paid**

	2018 Number	2018 \$000	2017 Number	2017 \$000
Ordinary shares of £1.00 each				
At 1 January and 31 December	<u>436,037</u>	<u>837</u>	<u>436,037</u>	<u>837</u>

The holders of the ordinary shares are entitled to one vote per share in any circumstances. Each share is entitled pari passu to dividend payments or any other distribution.

14. Reserves**Other reserves**

The other reserves represent the gains and losses recognised through other comprehensive income relating to the Company's defined benefit scheme as detailed in note 20.

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

15. Trade and other payables

	2018	2017
	\$000	\$000
Current:		
Trade payables	13,250	12,964
Payables from affiliates	175	368
Other creditors	331	302
Deferred government grants	32	32
	<u>13,788</u>	<u>13,666</u>
Non current:		
Deferred government grants	48	80
	<u>48</u>	<u>80</u>
Aggregate amounts	<u><u>13,836</u></u>	<u><u>13,746</u></u>

The Company has exposure to payables denominated in currencies other than the functional currency. Where significant exposure exists, the Company's parent company enters into appropriate foreign exchange contracts on a group level. Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms.

For related party transactions refer to note 24.

Government grants

In 2011 the Company received \$133,000 from the Welsh Assembly Government in relation to a capital project. A final receipt of \$126,000 was received during 2013 relating to the same project. The grant is being deferred over the expected remaining useful life of the asset at the time of receipt the grant of 9 years. Amounts totalling \$32,000 (2017: \$32,000) were credited to the income statement during the year and included in cost of sales.

16. Tax

	2018	2017
	\$000	\$000
Corporation tax payable	<u>760</u>	<u>298</u>

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

17. Leases**Operating leases - lessee**

The total future value of minimum lease payments is due as follows:

	2018 \$000	2017 \$000
Not later than one year	9	19
Between one year and five years	5	18
	<u>14</u>	<u>37</u>

18. Financial instruments**Fair values****Trade and other receivables**

The directors believe that the fair value of trade and other receivables approximate to their carrying value. The present value of future cash flows are not discounted as the effect is not material.

Trade and other payables

The directors believe that the fair value of trade and other payables approximate to their carrying value. The present value of future cash flows are not discounted as the effect is not material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated at its carrying value where the cash is repayable on demand.

Set out below is a comparison by category of the carrying amounts and fair values of all of the Company's financial instruments that are presented in the financial statements:

	Carrying Value 2018 \$000	Fair Value 2018 \$000	Carrying Value 2017 \$000	Fair Value 2017 \$000
Current financial assets				
Trade and other receivables	19,605	19,605	17,681	17,681
Cash and cash equivalents	445	445	539	539
Total financial assets	<u>20,050</u>	<u>20,050</u>	<u>18,220</u>	<u>18,220</u>
Current financial liabilities				
Trade and other payables	13,788	13,788	13,666	13,666
Total financial liabilities	<u>13,788</u>	<u>13,788</u>	<u>13,666</u>	<u>13,666</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

19. Deferred tax

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as tax loss and tax credit carry forwards. Deferred tax assets are recognised to the extent it is probable that the temporary differences, unused tax losses and unused tax credits will be realised. The realisation of deferred tax assets is reviewed each reporting period and includes the consideration of historical operating results, projected future taxable income exclusive of reversing temporary differences and carry-forwards, the scheduled reversal of deferred tax liabilities and potential tax planning strategies.

	2018 \$000	2017 \$000
Balance at 1 January	84	84
Credit to statement of profit or loss	(24)	(15)
(Credit)/ charge to other comprehensive income	(14)	15
Balance at 31 December	46	84

	Statement of financial position				Statement of profit or loss	
	Assets		Liabilities		loss	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Property, plant and machinery	-	-	100	126	(26)	(13)
Pension asset	53	48	-	-	9	(6)
Other taxable temporary differences	-	-	-	6	-	4
Provisions	1	-	-	-	(7)	-
Net assets and liabilities	54	48	100	132		
					(24)	(15)
Deferred tax credit						

Deferred tax on machinery and property relates to tax allowances in excess of depreciation.

Unrecognised deferred tax assets and liabilities

There are no unrecognised deferred tax assets and liabilities.

Effect of changes of tax rate

Reductions in the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax balance at the 31 December 2018 has been calculated based on the rate of 17% substantively enacted at the statement of financial position date.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

20. Employee benefit obligations

Defined benefits plan

The Company offers a retirement benefit plan to its employees through AMG UK Group 2006 Pension Plan.

The AMG UK Group 2006 Pension Plan defined benefit section ('2006 Pension Plan') was closed to new employees and to further service for current employees during 2006. As the remaining service for active members is zero, scheme assets are measured at the bid market value at the statement of financial position date. The liabilities of the pension plan measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. Estimated future cash flows are discounted at the current rate of return on high quality corporate bonds of an equivalent term to the liability. Actuarial gains and losses are recognised in full in the year in which they occur in the statement of comprehensive income.

The scheme assets and liabilities of the 2006 Pension Plan are initially valued in full in accordance with IAS19. The assets and liabilities are then split between AMG Superalloys UK Limited and AMG AlpoCo UK Limited.

The liability of each member, as calculated at the last full actuarial valuation, is used to calculate the overall proportion of each Company's liability (member data taken at December 2015 was used to identify the employees of each company). The relevant percentage is applied to all items from the latest IAS19 calculations (excluding company contributions) and the appropriate assets, liabilities, income and expense are recognised in the relevant company.

The level of company contributions to be paid is set by the trustees and company at the time of each triennial valuation.

IAS 19 requires that the discount rate used be determined by reference to market yields at the reporting date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension obligations. The discount rate has been assessed by reference to the duration of the pension plan liabilities and by reference to the published iBoxx index of Sterling corporate bonds of duration greater than 15 years and investment grade AA and above. Allowance is made where the constituent bonds in the published index have been re-rated or new issues made.

The rate of inflation influences the assumption for salary and pension increase. This has been assessed by reference to yields on long-term fixed and index-linked Government bonds and has regard to Bank of England published inflationary expectations.

The last full actuarial valuation of the 2006 Pension Plan was carried out by a qualified independent actuary at 31 December 2015 and updated on an approximate basis to 31 December 2018.

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

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Employee benefit obligations (continued)

	2018 \$000	2017 \$000
Present value of funded obligations	(3,755)	(4,309)
Fair value of plan assets	3,445	4,025
Present value of unfunded obligations	(310)	(284)

The amounts recognised in statement of profit or loss are as follows:

	2018 \$000	2017 \$000
Service costs	6	2
Net interest from net defined benefit	7	9
Expenses	19	27
Gain from settlements	(80)	-
	(48)	38
Actual return on plan assets	(91)	264

All the costs were reflected in administrative expenses in the statement of profit or loss.

Changes in the present value of the defined benefit obligation are as follows:

	2018 \$000	2017 \$000
Opening defined benefit obligation	4,309	3,969
Service cost	6	2
Net interest	100	99
Expenses	19	27
Benefits paid, death in service insurance premiums and expenses	(263)	(224)
Liabilities extinguished on settlements	(80)	-
Exchange rate movements	(242)	384
Remeasurement:		
Actuarial losses from changes in demographic assumptions	34	9
Actuarial (gains)/ losses from changes in financial assumptions	(137)	68
Actuarial losses/ (gains) due to scheme experience	9	(25)
	3,755	4,309

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Employee benefit obligations (continued)

Changes in the fair value of scheme assets are as follows:

	2018 \$000	2017 \$000
Opening fair value of scheme assets	4,025	3,634
Interest income	93	90
Benefits paid, death in service insurance premiums and expenses	(263)	(224)
Exchange rate movements	(226)	351
Remeasurements:		
Return on plan assets (excluding interest income)	(184)	174
	<u>3,445</u>	<u>4,025</u>

The amounts recognised in other comprehensive income are as follows:

	2018 \$000	2017 \$000
Actuarial losses from changes in demographic assumptions	(34)	(9)
Actuarial gains/ (losses) from changes in financial assumptions	137	(68)
Actuarial (losses)/ gains due to scheme experience	(9)	25
Return on plan assets (excluding interest income)	(184)	174
Exchange rates	16	(33)
	<u>(74)</u>	<u>89</u>

The major categories of scheme assets as amounts of total scheme assets are as follows:

	2018 \$000	2017 \$000
Diversified growth funds	2,058	2,760
Absolute return	497	285
Liability Driven Investment	885	971
Cash	5	9
	<u>3,445</u>	<u>4,025</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

20. Employee benefit obligations (continued)

Principal actuarial assumptions at the statement of financial position date (expressed as weighted averages):

	2018	2017
Rate used to discount liabilities	2.40%	2.40%

Allowance for commutation of pension for cash at retirement - 50% of Post A Day

Assumptions regarding future mortality are based on published statistics and mortality tables, but also take into account the actual membership experience and specific demographics of the workforce. The average life expectancy assumptions, after retirement at 60 years age, are as follows:

Males retiring in 2018	24.9
Females retiring in 2018	26.9
Males retiring in 2038	26.1
Females retiring in 2038	28.2

Analysis of the sensitivity to the principal assumption of the present value of the defined benefit obligation:

	Change in assumptions	Change in liabilities
Discount rate	Decrease of 1% p.a.	Increase by 13%
Rate of inflation	Increase 0.25% p.a.	Increase by 0.7%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 5.1%
Commutation	Members commute extra 10% of Post A Day pension on retirement	Decrease by 0.5%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases.

Contributions of \$nil have been made by the employer over the period for the pension plans (2017 - \$nil). The best estimate of contributions to be paid to the plan for the year ended 31 December 2018 is \$nil.

Defined contribution scheme

The total expense as of 31 December 2018, recognised in the statement of profit or loss \$223,207 (2017 - \$213,500) represents contributions paid and payable to the plan.

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

21. Ultimate parent company

The immediate parent undertaking is AMG Superalloys UK Limited, a company registered in England and Wales, and is the smallest group in which the results of the Company are consolidated. Copies of the immediate parent undertaking's group financial statements may be obtained from AMG Superalloys UK Limited, Fullerton Road, Rotherham, S60 1DL.

The largest group in which the results of the Company are consolidated, and the controlling party, is AMG Advanced Metallurgical Group N.V., a company incorporated in the Netherlands, whose principal address is WTC Amsterdam, Toren C, 13th Floor, Strawinskylaan 1343, 1077 XX Amsterdam. Copies of the financial statements of AMG Advanced Metallurgical Group N.V. can be obtained from the principal address or at www.amg-nv.com.

22. Contingent liabilities

The Company is party to an Invoice Discounting Agreement with KBC Commercial Finance NV and has a fixed charge over its book debts and the proceeds of book debts.

The Company is party to AMG Advanced Metallurgical Group N.V.'s term and revolving credit facilities and has given fixed and floating charges over all its assets to participate in those group banking facilities. As of 1 February 2018, the AMG Advanced Metallurgical Group N.V. entered into a new \$350m seven-year senior secured term loan B facility and a \$200m five-year senior secured revolving credit facility. Proceeds from the facility were used to repay AMG Advanced Metallurgical Group N.V.'s previous credit facility.

At 31 December 2018, there was \$339m outstanding in term loans and revolving credit facility (2017: \$152m). Full details of the terms relating to the facility can be found in the group financial statements of AMG Advanced Metallurgical Group N.V., copies of which are available from the address listed in note 21.

In the opinion of the directors no loss is expected to arise as a result of these matters.

23. Capital commitments

At 31 December 2018, the capital commitments for the Company were \$nil (2017: \$nil).

24. Related party transactions

Details of transactions between the Group and other related parties are disclosed below.

Transactions with entities within a group

According to IAS 24 all subsidiaries and associates within the AMG Advanced Metallurgical Group N.V. are related parties to the Company and transactions with those companies have to be disclosed in the Company's separate financial statements. The related party transactions concerning sales and purchases of goods for the year ended 31 December are summarised below:

	Sales		Debtors	
	2018	2017	2018	2017
	\$000	\$000	\$000	\$000
Immediate parent company	16,499	16,504	13,332	12,917
Fellow subsidiaries of the larger group	242	58	6	345

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

24. Related party transactions (continued)

	Purchases		Creditors	
	2018	2017	2018	2018
	\$000	\$000	\$000	\$000
Immediate parent company	-	-	173	17
- Purchases	196	93	-	-
- Recharge raw material purchases	467	1,423	-	-
- Recharged services	647	647	-	-
- Recharge salary costs	2,960	2,968	-	-
Fellow subsidiaries of the larger group	1,253	2,534	2	351

The parent company, AMG Superalloys UK Limited and fellow subsidiary, AMG Aluminum UK Limited purchase raw materials on behalf of the Company. Accounting, information technology and purchasing services are recharged to the Company. The payroll is also operated by the parent company and the relevant salary costs are recharged through to the Company.

All the above transactions are undertaken on normal commercial terms.

Transactions with key management personnel

The directors are considered to be the only key management personnel. The remuneration of the directors is disclosed in note 4.

Group cash pooling arrangement

	Net interest receivable / (paid)	Debtors	Net interest receivable / (paid)	Debtors
	2018	2018	2017	2017
	\$000	\$000	\$000	\$000
Ultimate parent company	(95)	2,869	(66)	1,428

The Company participates in a centralised cash management arrangement with AMG Invest GmbH. Initially the arrangement bore interest at EURIBOR monthly average plus 2.875% on both debit and credit balances. Since May 2017, a separate interest has been applied for credit balances at EURIBOR monthly average plus 1.00% for Euro balances and EURIBOR monthly average plus 1.75% for US dollar and sterling balances. Interest is receivable/ payable monthly in arrears.

25. Accounting estimates and judgements

Provision for bad debts

The Company has a policy of providing for debts which are overdue by 60 days or more. It is management's judgement that where this is the case the whole debt relating to the customer is provided for even if not yet due, as the risk of default is considered high. The total bad debt provision recorded at 31 December 2018 was \$649 (2017: \$nil).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

25. Accounting estimates and judgements (continued)

Inventory provisions

The Company has a policy of making a provision against slow moving inventories. Any items over one year old are written down to the raw material cost of the product. Small development samples are written off in the year of production.

Management consider this the best estimate to minimise the impact to the Company of slow moving stocks. The Company has a policy of making provisions to value the inventory at the lower of cost and net realisable basis. Where market conditions exist such that there is an indication products may require writing down to net realisable value, the products are reviewed on a product by product basis with the average inventory value and the net realisable value calculated from the lowest valued sales contracts and the relevant provision recorded. The total inventory provision recorded at 31 December 2018 was \$108,478 (2017: \$219,207).

Defined benefit obligations

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumptions are reviewed at each reporting date. Due to the long-term nature of these plans and the complexity of the valuations, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used are given in note .

26. Capital management, financial risk management objectives and policies

Capital management

The primary objective of the Company is to maintain strong capital ratios in order to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it, in light of economic conditions.

The Company's principal financial liabilities are comprised of payables to affiliates and trade payables. The Company has various financial assets such as trade and other receivables, receivables from affiliates and cash, which arise directly from its operations.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The main risks arising from the Company's financial instruments are: credit, liquidity, foreign currency, and commodity.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Capital management, financial risk management objective and policies (continued)

Credit risk

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

The amounts presented on the statement of financial position are net of allowances for doubtful receivables estimated by the Company's management, based on prior experience and the current economic climate.

The Company trades only with creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures which ensure their creditworthiness. In addition, receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to impairment losses is not significant. Approximately a third of the Company's revenue is sold to its immediate parent company AMG Superalloys UK Limited. There are no other customers which account for more than 10% of the Company's revenue.

The Company's maximum exposure is the carrying amount as discussed in note .

The Company's Treasury function monitors the location of cash and cash equivalents and monitors the strength of those banks.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company aims to mitigate liquidity risk by managing cash generation by its operations. In addition, the Company's ultimate parent company has banking facilities in place, in the event further cash flow is required.

It is Company policy to agree payment terms with its suppliers. Payment is made when it can be confirmed that the goods or services have been provided in accordance with the relevant contractual conditions.

AMG ALPOCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Capital management, financial risk management objectives and policies (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 based on contractual undiscounted payments:

	Carrying amount \$000	Contractual cash flows \$000	<3 months \$000	3-12 months \$000	2020 \$000	2021 \$000	>2022 \$000
Trade and other payables	13,788	13,788	13,788	-	-	-	-

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2017 based on contractual undiscounted payments:

	Carrying amount \$000	Contractual cash flows \$000	<3 months \$000	3-12 months \$000	2019 \$000	2020 \$000	>2021 \$000
Trade and other payables	13,666	13,666	13,666	-	-	-	-

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Company's income or the value of its holdings of financial instruments.

Short term receivables and payables are not exposed to interest rate risk. The Company does not have other financial assets and liabilities that are exposed to interest rate risk.

Currency risk

Currency risk is the risk that changes in foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The Company's functional currency is US Dollars. A significant proportion of the Company's purchases and sales are in US Dollars. However, the Company has exposure to purchases and sales made in Sterling and sales made in Euros.

The Company's parent company has developed policies to effectively manage this exposure and minimise the risks of currency fluctuations on a group level. The parent company uses forward currency contracts to achieve this. The Company itself does not use these financial instruments on a company only level and thus is not exposed to currency price risks through financial instruments. As such there would be no effect on profit before tax if there were a change in the exchange rates of the primary currencies the Company uses.

Commodity price risk

Commodity price risk is the risk that certain raw materials prices will increase and negatively impact the gross margins and operating results of the Company. The Company is exposed to volatility in the prices of aluminium, publicly traded on the London Metal Exchange.

The Company's parent company has developed policies to effectively manage the Company's commodity exposures and minimise the risks of commodity price fluctuations on a group level and uses forward contracts. The Company itself does not use these financial instruments on a company only level and thus is not exposed to commodity price risks through financial instruments. Commodity price risk is considered to be a usual business risk for the Company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

27. New and amended standards

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018.

The nature and the impact of each new standard and amendment is described below:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Company has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

The impact of adopting IFRS 15 on the statement of financial position as of 31 December 2018, and its statement of profit or loss for the year then ended is \$nil. There was no material impact on the Company's statement of cash flows for the year ended 31 December 2018.

28. Standards issued but not yet effective

Several new standards and amendments to standards are effective for annual periods beginning after 1 January 2019, and earlier application is permitted; however, the Company has not early adopted the following new or amended standards in preparing these consolidated financial statements.

IFRS 16 Leases

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 with recognition exemptions for leases of 'low-value' assets and short-term leases. Lessees recognise a liability to pay rentals with a corresponding asset and recognise interest expense and depreciation separately. Reassessment of certain key considerations (i.e. lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

The new standard is effective for the Company on 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as discussed below. The actual impact related to the implementation of the standard is subject to change until the Company presents its first financial statements that include the date of adoption.

The Company will recognise new assets and liabilities for its operating leases which are primarily comprised of buildings, equipment, machinery and automobiles. Right of use assets will be included within property, plant and equipment and classified in the same manner as if the underlying assets were owned by the Company. The lease liabilities will be presented as a separate line item on the consolidated statement of financial position. The nature and pattern of expense recognition in relation to these leases will change upon adoption of the standard. The Company will recognise depreciation on the right of use assets on a straight-line basis over the expected term of the lease. Interest expense related to the lease liabilities will be recognised over the expected term of the lease using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

28. Standards issued but not yet effective (continued)

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. No significant impact is expected for the Company's finance leases.

Based on information that is currently available, the Company estimates that it will recognise additional lease liabilities of approximately \$485,000 at 1 January 2019, with a corresponding right of use asset recognised as well. The Company has limited leasing arrangements with the exceptions of certain building leases. These building leases comprise the majority of the expected right of use assets and lease liabilities to be recorded. The impact to the Statement of Profit and Loss and Statement of Cash Flows is not expected to be significant on an annual basis given the extended term of the underlying building leases.

The Company intends to apply the modified retrospective approach upon initial adoption of IFRS 16 on 1 January 2019. Under this approach, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings on that date. Comparative information will not be restated to conform to the provisions of the standard, which is permitted under the modified retrospective approach. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease as defined by IAS 17 and IFRIC 4. The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company will also elect to utilise the practical expedient that allows it to rely on previous assessments and determinations of onerous leases. The value of any leases that were deemed to be onerous will be offset against the right of use asset at the date of adoption.