

BASF Metals Limited

Annual Report and Financial Statements

Registered number 01657318

31 December 2018



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Strategic Report

Principal activities

The Company's principal activity is to ensure competitive, efficient supply and distribution of the platinum group metals required by BASF's operating divisions and third-party customers. The Company's activities include sourcing physical metal from primary producers and from the metal recycling business, and hedging price risk associated with supply. The Company is active in the precious metal markets, utilising the skills of its trading expertise to manage price risk and generate profits. The Company is a full member of both the London Platinum and Palladium Market and the London Bullion Market Association.

The main objectives of the Company are to ensure supply of platinum group metals to all of BASF's operating divisions while at the same time taking advantage of opportunities in the precious metal markets as and when they exist, to grow profit.

All business activities will be in line with the following cultural priorities of the BASF Catalysts division:

- Make safety & responsible care our top priority
- Operate in a consistently compliant way
- Lead through innovation
- Achieve excellence in execution

Business review and results

The profit for the financial year was \$33,460,000 (2017: profit \$28,314,000). The equity shareholders' funds at the year end were \$123,202,000 (2017: \$109,165,000).

BASF Metals Ltd completed the purchase of BASF Metals GmbH's categorised assets on 31st January 2018.

Key performance indicators

The key performance indicator for the Company is profit before tax, which for the financial year was \$41,330,000 (2017: \$34,234,000), with emphasis on dealing income and operating result. Dealing income (which comprises profits and losses from dealing in metal commodities) increased from \$51,286,000 in 2017 to \$59,375,000 in 2018. Operating result, which comprised dealing income, administrative expenses and other operating income & expenses, increased from \$40,058,000 in 2017 to \$49,404,000 for the current year.

Financial Risk Management

The principal risks associated with the Company are credit, liquidity, market, operational and price risk. The Company is firmly committed to the management of these risks through comprehensive risk management practices as set out in Note 22.

Employees

The Company has continued its policy of maintaining employee awareness by communicating with employees on all matters of concern. In particular, all employees are kept aware of the financial and economic factors affecting the performance of the Company.

Employment of disabled persons

The Company gives full and fair consideration to employment applications from disabled persons, having regard to the aptitudes and abilities of the applicant and the nature of work involved. The Company uses all reasonable endeavours to provide continued and any necessary retraining to any employees becoming disabled during employment, and to give all employees equal opportunities for training, career development and promotion.


Strategic Report (*continued*)

Future developments

The Company's primary focus will continue to be the supply, distribution and price risk management of platinum group metals to BASF and third-party customers. The Company is also investigating the possibility of providing supply and price risk management functions for base metals required by the Battery (CCB) business.

On 29 March 2017, Article 50 was triggered starting the process of the UK leaving the European Union. The UK was scheduled to leave the EU on the 29th March 2019, and this date has recently been extended by the European Commission to the 31st October 2019 following an extension request from the British Prime Minister. Whilst the outcome of Brexit negotiations remains uncertain, the directors do not foresee any significant impact on the business due to the physical nature of supply and delivery of platinum group metals.

Signed on behalf of the Board


V Vergopoulos
Director

21st Floor
110 Bishopsgate
London
United Kingdom
EC2N 4AY
9th May 2019

Directors' Report

The directors present their directors' report and financial statements for the year ended 31 December 2018 which have been prepared on the going concern basis, as the Directors are satisfied that the Company has sufficient resources to continue in business for the foreseeable future (Note 1 (c)).

Financial results

The profit for the financial year was \$33,460,000 (2017: profit \$28,314,000). The equity shareholders' funds at the year end were \$123,202,000 (2017: \$109,165,000).

Financial instruments

A financial instrument is recognised if the Company becomes party to the contractual provisions of the instrument. The Company classifies its financial instruments as per the categories set out in Note 1 (i). Management determines the classification of the financial instruments at initial recognition and re-evaluates this designation at every reporting date.

Proposed dividend

The directors propose a dividend of \$28,314,000 in respect of the previous year ended 2017.

Dividends paid during the year comprised a final dividend of \$19,423,000 in respect of the year ended 2016.

Directors

The directors who held office during the year ended 31 December 2018 were as follows:

J Metcalf
V Vergopoulos
S Boegenhold
R Carter

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Political and charitable contributions

During the year the Company made charitable donations of \$1,188 (2017: \$396). The Company did not incur any political expenditure during the year (2017: \$nil).

Business review, subsequent events and indication of likely future developments

Detailed information around each of these reported items is provided as part of the Strategic Report on pages 1 and 2.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' Report (*continued*)

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed, and KPMG LLP will therefore continue in office.

By order of the Board



V Vergopoulos
Director

21st Floor
110 Bishopsgate
London
United Kingdom
EC2N 4AY
9th May 2019

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether UK Accounting Standards have been followed, 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 relating 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 Auditor's Report to the members of BASF Metals Limited

Opinion

We have audited the financial statements of BASF Metals Limited ("The Company") for the year ended 31 December 2018 which comprise the Statement of Profit and Loss and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and related notes, including the accounting policies in note 1.

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 UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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.

Other Matter

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 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 Company'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 Company'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 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:

Independent Auditor's Report to the members of BASF Metals Limited (*continued*)

- we have not identified material misstatement 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 5, 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.

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.



Sarah Ward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
10th May 2019

Statement of Profit and Loss and Other Comprehensive Income
for the year ended 31 December 2018

	<i>Note</i>	2018 \$000	2017 \$000
Dealing income	1 (f)	59,375	51,286
Gross profit		59,375	51,286
Administrative expenses		(14,784)	(14,068)
Other operating income	2	4,813	2,840
Operating profit		49,404	40,058
Interest receivable and similar income	6	374	392
Interest payable and similar expenses	7	(8,448)	(6,216)
Profit before taxation		41,330	34,234
Tax on profit	8	(7,870)	(5,920)
Profit after taxation		33,460	28,314
Other comprehensive income		-	-
Total comprehensive income for the year		33,460	28,314

The profit for the year and the prior period has arisen from continuing activities.

The accompanying notes from page 11 to 34 form an integral part of these financial statements.

Balance Sheet
at 31 December 2018

	Note	2018 \$000	\$000	2017 \$000	\$000
Fixed assets					
Tangible fixed assets	9	72		99	
Investments	10	660		660	
			732		759
Non current assets					
Derivative financial assets over one year	11		20,902		2,960
Current assets					
Precious metal trading position		412,967		365,980	
Derivative financial assets under one year	11	95,342		92,847	
Debtors: amounts falling due within one year	12	67,345		105,066	
Cash at bank and in hand		355		299	
		576,009		564,192	
Creditors: amounts falling due within one year	13	(332,152)		(181,878)	
Derivative financial liabilities under one year	11	(75,668)		(110,845)	
Net current assets			168,189		271,469
Total assets less current liabilities			189,823		275,188
Creditors: amounts falling due after one year	14	(51,457)		(151,832)	
Derivative financial liabilities over one year	11	(15,164)		(14,191)	
Net assets			123,202		109,165
Capital and reserves					
Called up share capital	17	4,760		4,760	
Profit and loss account		118,442		104,405	
Shareholders' funds			123,202		109,165

The accompanying notes from page 11 to 34 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 9th May 2019 and were signed on its behalf by:


V Vergopoulos
Director

Company registered number: 1657318

Statement of Changes in Equity
at 31 December 2018

	Share Capital \$000	Profit and Loss Account \$000	Total \$000
Balance at 1 January 2017	4,760	95,460	100,220
Profit and total comprehensive income for the period	-	28,314	28,314
Dividends paid	-	(19,369)	(19,369)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2017	4,760	104,405	109,165
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2018	4,760	104,405	109,165
Profit and total comprehensive income for the period	-	33,460	33,460
Dividends paid	-	(19,423)	(19,423)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	4,760	118,442	123,202
	<hr/>	<hr/>	<hr/>

The accompanying notes from page 11 to 34 form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

BASF Metals Limited (the “Company”) is a private company limited by shares incorporated, registered and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 – *Reduced Disclosure Framework* (“FRS 101”).

Under FRS 101, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by EU (“Adopted IFRS”), but makes amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s ultimate parent undertaking, BASF Societas Europaea (“BASF SE”), includes the Company in its consolidated financial statements which are prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU-IFRS) and are available to the public and may be obtained from, D67056 – Ludwigshafen, Germany. In these financial statements, the Company has applied the disclosure exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- Disclosure in respect of transactions with fully consolidated group companies;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of key management personnel.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

(a) Change in accounting policy

IFRS 9 – Financial Instruments

IFRS 9 was applied by the Company for the first time as of 1st January 2018.

IFRS 9 contains new requirements for the classification and measurement of financial assets, changes regarding the accounting treatment of impairments of certain financial assets and a revised approach to hedge accounting. IFRS 9 retains “amortised cost” and “fair value” as measurement bases for financial instruments and continues to differentiate between changes in fair value recognised through profit and loss and through other comprehensive income.

The classification and measurement of financial assets in accordance with IFRS 9 is based on the one hand on the cash flow condition (the “solely payments of principle and interest” criterion), that is, the contractual cash flow characteristics of an individual financial asset. On the other hand, it also depends on the business model used for managing financial asset portfolios.

Unlike IAS 39, under IFRS 9 impairments of financial assets that are not measured at fair value through profit or loss are no longer just recognised when there is objective evidence of impairment. Rather, impairment allowances are also recognised for expected credit losses. These are determined based on the credit risk of a financial asset, as well as any changes to this credit risk. If the credit risk of a financial asset has increased significantly since initial recognition, expected credit losses are generally recognised over the lifetime of the asset. If the credit risk has not increased significantly in this period, impairments are generally only recognised for the 12-month expected credit losses. By contrast, under a simplified approach, impairments for receivables such as trade debtors always cover the lifetime expected credit losses of the receivable concerned.

The first-time adoption of IFRS 9 follows the modified retrospective method, which means that the prior period information is not restated – this continues to be presented in accordance with IAS 39 (Note 24).

Notes *(continued)*

1 Accounting policies *(continued)*

(a) Change in accounting policy *(continued)*

IFRS 15 – Revenue from Contracts with Customers

The Company has exercised the initial application relief allowed by IFRS 15 and applies the standard to reporting period beginning on or after 1st January 2018. IFRS 15 is a new standard on revenue recognition that brings together the numerous requirements previously contained in various standards and interpretations and provides a single, principle-based five-step-model that applies to all customer contracts. The initial application of IFRS 15 did not have any effect on the recognition of fee and commission income.

(b) Measurement convention

The financial statements are prepared on the historical cost basis except for derivative financial instruments which are stated at their fair value.

(c) Going concern basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Directors' Report on pages 1 to 4. The Company has considerable financial resources and the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors have considered the guidance issued by the Financial Reporting Council in April 2016 entitled 'Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks: Guidance for directors of companies that do not apply the UK Corporate Governance Code' in forming an opinion on the ability of the Company to continue as a going concern. Thus they continue to adopt the going concern basis for accounting in preparing the annual financial statements.

(d) Precious metal trading position

For the valuation of inventories in the precious metals trading business, the Company applies the exception for commodity broker-traders under IAS 2. Accordingly, inventories held exclusively for trading purposes are to be measured at fair value. Changes in value are recognised in the statement of profit and loss.

(e) Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies 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 translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of profit and loss. 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 translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

(f) Dealing income

The directors believe that turnover and cost of sales do not have meaningful equivalents for the business of the Company and, in keeping with similar businesses, these items have not been separately disclosed in the Statement of profit and loss. The directors consider that dealing income, which comprises profits and losses from dealing in metal commodities, is a more relevant measure of activity. This income, the major constituent of dealing income, is accounted for in accordance with IFRS 9. Also included is precious metal leasing income and expense (Note 1(q)).

(g) Investments

Investments in subsidiaries are held at historical cost less any applicable provision for impairment.

(h) Taxation

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

Notes (continued)

1 Accounting policies (continued)

(h) Taxation (continued)

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. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right to offset exists.

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 assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent 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.

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.

(i) Financial instruments (policy applicable from 1st January 2018)

Initial recognition and measurement

Trade receivables are initially recognised when they are originated, all other financial assets and financial liabilities are initially recognised when the company becomes party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets – classification

The classification and measurement of financial assets is based on the contractual cash flow characteristics and the business model used for managing financial assets.

A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost, including all derivative financial assets, are measured at fair value through profit and loss (FVTPL).

Financial assets – subsequent measurement

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by expected credit losses recognised in profit or loss. Interest income, foreign exchange gains and losses and any gain or loss on derecognition are recognised in profit or loss.

Financial assets at FVTPL are subsequently measured at fair value with changes in fair value recognised in dealing income in the statement of profit and loss. This category includes derivative financial instruments.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value with any net gains and losses (including interest expense) recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Interest expense, foreign exchange gains and losses and any gain or loss on derecognition are recognised in profit or loss.

Notes (continued)

1 Accounting policies (continued)

(i) Financial instruments (policy applicable from 1st January 2018) (continued)

Derecognition

Financial assets are derecognised when the Company no longer has a contractual right to the cash flows from the financial asset or when the financial asset is transferred together with all material risks and rewards of ownership and the Company does not have control of the financial asset after it has been transferred. Financial liabilities are derecognised when the contractual obligations expire, are discharged or cancelled.

Derivative financial instruments

Derivative financial instruments entered into by the Company are not designated as hedging instruments in hedge relationships as defined by IFRS 9. These are carried in the balance sheet at fair value, with changes in fair value recognised in dealing income in the statement of profit and loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

The Company has in place master netting agreements that stipulate if both parties to a transaction are required to make payments under the agreement in the same currency on the same day; the party which owes the higher amount will pay the difference between the amounts owed.

ISDA and similar master netting agreements meet the criteria for offsetting in the balance sheet. This is because firstly, they create for parties to the agreement a legally enforceable right to set-off the recognised amount; and secondly that both parties to these agreements regularly engage in settlement on a net basis.

The values of financial assets and financial liabilities offset in the balance sheet are disclosed in Note 22.

Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets held at amortised cost.

Impairments are recognised for ECLs at the time of subsequent measurement. The extent of ECLs is determined based on the credit risk of a financial asset and any changes to this credit risk. If the credit risk of a financial asset has increased significantly since initial recognition, ECLs are generally recognised over the lifetime of the asset. If the credit risk has not increased significantly in this period, impairments are generally only recognised for the 12-month ECLs. Under the simplified approach for determining ECLs permitted by IFRS 9, impairments for trade receivables always cover the lifetime ECLs of the receivable concerned.

The credit risk of a financial asset is assessed using both internal information and external rating information on the respective counterparty and are reviewed annually.

Regional and, in certain circumstances, industry-specific factors and expectations are taken into account when assessing the need for a valuation allowance as part of the calculation of ECLs and individual valuation allowances. In addition, internal and external ratings and the assessments of debt collection agencies are used when available. Individual valuation allowances are also based on experience and customer-specific risks.

A decrease in valuation allowances due, for example, to a reduction in credit risk of a counterparty is recorded in profit or loss.

At each reporting date the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross amount of a financial asset is written off to the extent that there is no realistic prospect of recovery.

Notes (continued)

1 Accounting policies (continued)

(j) Financial assets (policy applicable prior to 1st January 2019)

Initial recognition and measurement

As per IAS 39, financial assets can be classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the settlement date. The Company's financial assets include cash, trade and other receivables, unquoted financial instruments and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in dealing income in the statement of profit and loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. The losses arising from impairment are recognised in the statement of profit and loss in other operating expenses.

Available-for-sale financial assets

Available-for-sale financial assets consists of equity securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available-for-sale financial investments should be subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the unrealised gains and losses reserve, unless the asset is impaired, in which case the impairment loss is reported in the statement of profit and loss. When the investment is derecognised, the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the statement of profit and loss in other operating expenses and removed from the unrealised gains and losses reserve. Fair value is used except in instances where fair value cannot be reliably determined.

The Company did not have any financial assets classified as held-to-maturity.

(k) Financial liabilities (policy applicable prior to 1st January 2018)

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 can be classified either as financial liabilities at fair value through profit or loss or other liabilities. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of other liabilities, plus directly attributable transaction costs.

Notes (continued)

1 Accounting policies (continued)

(k) Financial liabilities (policy applicable prior to 1st January 2018) (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through the statement of profit and loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in dealing income.

Interest bearing borrowings

Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost. These are subsequently measured at amortised cost.

(l) Offsetting of financial instruments (policy applicable prior to 1st January 2018)

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

The Company has in place master netting agreements that stipulate if both parties to a transaction are required to make payments under the agreement in the same currency on the same day; the party which owes the higher amount will pay the difference between the amounts owed.

ISDA and similar master netting agreements meet the criteria for offsetting in the balance sheet. This is because firstly, they create for parties to the agreement a legally enforceable right to set-off the recognised amount; and secondly that both parties to these agreements regularly engage in settlement on a net basis.

The values of financial assets and financial liabilities offset in the balance sheet are disclosed in Note 22.

(m) Non derivative financial instruments (policy applicable prior to 1st January 2018)

Non-derivative financial instruments comprise investments in equity, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors 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.

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

Investments in equity securities held by the Company are classified as being available-for-sale and are stated at cost.

(n) Impairment (policy applicable prior to 1st January 2018)

Financial assets (including trade and other debtors)

Financial asset not carried at fair value through the statement of profit and loss are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has 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 can be estimated reliably.

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

Notes (continued)

1 Accounting policies (continued)

(o) Derecognition (policy applicable prior to 1st January 2018)

Financial assets are de-recognised when the rights to receive cash flows from the asset have expired, or where the Company has transferred its contractual rights to receive the cash flows of the financial assets and either substantially all the risks and rewards of ownership have been transferred, or substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit and loss.

(p) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixtures, Fittings, Computers and Equipment that had been revalued to fair value on or prior to 1 January 2012, the date of transition to FRS 101, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the statement of profit and loss on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

	Depreciation rate (%) or period	Method
Leasehold improvements	Over the lease term of 5 years	Straight line
Fixtures, Fittings, Computers and Equipment	Over 2 to 5 years	Straight line
Motor vehicles	Over 2 to 5 years	Straight line

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

(q) Leased assets

Where the Company obtains assets under leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the Company as lessee (finance leases), the lower of the fair value of the leased asset or the present value of the minimum lease payments is capitalised as an asset with a corresponding liability representing the obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation of the lessor and the finance charge being written off to the statement of profit and loss at a constant rate over the period of the lease in proportion to the capital amount outstanding. Depreciation is charged over the shorter of the estimated useful life and the lease period.

Leases where substantially all the risks and rewards of ownership remain with the lessor are classified as operating leases. Rental costs arising under operating leases are expensed on a straight line basis over the term of the operating lease.

The Company enters into commercial agreements which have the commercial substance of a lease. As these contracts confer the use of an asset IAS 17 has been applied by analogy.

Notes (continued)

1 Accounting policies (continued).

(r) Accounting estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires the directors to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingences at the date of the financial statements and the reported income and expense during the reported periods. Although these judgements and assumptions are based on the director's best knowledge of the amounts, events or actions, actual results may differ from these estimates.

The key area of estimation and judgement is the valuation of derivative financial instruments which is determined using a valuation model based on market prices.

(s) 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.

(t) Interest

Interest payable and similar charges include interest payable, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the statement of profit and loss (see foreign currency accounting policy). Interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

2 Other operating income

	2018 \$000	2017 \$000
Income from group undertakings	3,026	3,149
Income/(Expense) from foreign currency transactions	1,787	(309)
	<u>4,813</u>	<u>2,840</u>

3 Expenses and Auditor's remuneration

Included in profit on ordinary activities before taxation are the following:

	2018 \$000	2017 \$000
Audit of the financial statements pursuant to legislation:		
- Statutory	150	122
Depreciation	27	48
Hire of buildings – rental payable under operating leases	644	566
	<u>821</u>	<u>736</u>

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
Manufacturing	16	15
Selling, administration and distribution	38	39
	<u>54</u>	<u>54</u>

Which includes BASF Metals Recycling Limited staff of:

	Number of employees	
	2018	2017
Manufacturing	16	15
Selling, administration and distribution	14	13
	<u>30</u>	<u>28</u>

The aggregate payroll costs of these persons were as follows:

	2018	2017
	\$000	\$000
Wages and salaries	7,786	7,156
Social security costs	928	785
Contributions to defined contribution plans	529	506
	<u>9,243</u>	<u>8,447</u>

5 Directors' remuneration

R Carter was employed by a subsidiary of the ultimate parent company and did not receive any emoluments for their services as directors of the Company. The emoluments of J Metcalf, V Vergopoulos and S Boegenhold attributable to the Company were as follows:

	2018	2017
	\$000	\$000
Aggregate directors' emoluments	1,873	1,389
Company contributions to money purchase pension plans	46	45
	<u>1,919</u>	<u>1,434</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was \$1,142,000 (2017: \$807,000) and company pension contribution of \$nil (2017: \$22,000) was made to a money purchase scheme on the director's behalf.

	Number of directors	
	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2
	<u>2</u>	<u>2</u>

Notes (continued)

6 Interest receivable and similar income

	2018 \$000	2017 \$000
Amounts receivable from group undertakings	270	361
Other interest receivable	104	31
	<u>374</u>	<u>392</u>

7 Interest payable and similar expenses

	2018 \$000	2017 \$000
Amounts payable to group undertakings	8,448	6,216

8 Taxation

Recognised in the statement of profit and loss

	2018 \$000	2018 \$000	2017 \$000	2017 \$000
<i>UK corporation tax</i>				
Current tax on income for the period	7,880		6,776	
(Over)/under provided in prior periods	(44)		(790)	
	<u></u>	7,836	<u></u>	5,986
<i>Foreign Tax</i>				
Current tax on income for the period	-		6	
	<u></u>	-	<u></u>	6
Total current tax		<u>7,836</u>		<u>5,992</u>
Deferred tax (see Note 15)				
Origination and reversal of temporary differences	34		(72)	
Reduction in tax rate	-		-	
	<u></u>	34	<u></u>	(72)
Total deferred tax		<u>34</u>		<u>(72)</u>
Tax on profit on ordinary activities		<u>7,870</u>		<u>5,920</u>

Notes (continued)

8 Taxation (continued)

Reconciliation of effective tax rate

	2018 \$000	2017 \$000
Profit for the year	33,460	28,314
Total tax expense	7,870	5,920
	<hr/>	<hr/>
Profit excluding taxation	41,330	34,234
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	7,853	6,590
Non-deductible expenses	65	94
Deferred tax relating to changes in tax rates	(4)	11
Over provided in prior years	(44)	(790)
Unrecognised temporary difference from prior period	-	15
	<hr/>	<hr/>
Total tax expense	7,870	5,920
	<hr/>	<hr/>

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015, and an additional reduction 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.

Notes (continued)

9 Tangible fixed assets

	Leasehold improvement	Fixtures, Fittings, Computer and Equipment	Motor vehicles	Total
	\$000	\$000	\$000	\$000
Cost				
Balance at 1 January 2017	548	463	135	1,146
Additions	-	87	-	87
Disposals	-	-	-	-
Balance at 31 December 2017 and 1 January 2018	548	550	135	1,233
Additions	-	-	-	-
Balance at 31 December 2018	548	550	135	1,233
Depreciation and impairment				
Balance at 1 January 2017	518	433	135	1,086
Depreciation charge for the year	22	26	-	48
Disposals	-	-	-	-
Balance at 31 December 2017 and 1 January 2018	540	459	135	1,134
Depreciation charge for the year	4	23	-	27
Balance at 31 December 2018	544	482	135	1,161
Net book value				
At 1 January 2017	30	30	-	60
At 31 December 2017 and 1 January 2018	8	91	-	99
At 31 December 2018	4	68	-	72

Notes (continued)

10 Investments

	Shares in Group Undertaking \$000
Cost	
At the beginning of the year	660
	<hr/>
At the end of the year	660
	<hr/> <hr/>

Investments held at 31 December 2018

	Class of shares held	Ownership 2018	2017
The Sheffield Smelting Company, Limited	Preference shares	100%	100%
The Sheffield Smelting Company, Limited	Ordinary shares	100%	100%

The registered office of The Sheffield Smelting Company, Limited is Earl Road, Cheadle Hulme, Cheshire, SK8 6QG.

11 Derivative financial assets and liabilities

See accounting policy in Note 1 (i), (j), (k) and (l).

The Company enters into derivative contracts with its customers which comprise precious metal forwards, futures and options held for trading and foreign exchange forward contracts.

The Company has in place master netting agreements that stipulate if both parties to a transaction are required to make payments under the agreement in the same currency on the same day, the party which owes the higher amount will pay the difference between the amounts owed. The figures in the table below reflect the effect of these netting arrangements. Reconciliation between the gross and the net amount of derivative financial assets and liabilities is given in Note 22.

	2018		2017	
	Assets \$000	Liabilities \$000	Assets \$000	Liabilities \$000
Derivatives				
Current	95,342	75,668	92,847	110,845
Non-current	20,902	15,164	2,960	14,191
	<hr/>	<hr/>	<hr/>	<hr/>
	116,244	90,832	95,807	125,036

The Company measures fair values using the fair value hierarchy that reflects the significance of inputs used in making the measurements. The derivative financial assets and liabilities of the Company fall within the categories of Level 1 and Level 2 (Note 23).

Notes (continued)

12 Debtors: amounts falling due within one year

	2018	2017
	\$000	\$000
Trade debtors	4,832	1,552
Amounts owed by ultimate parent company and fellow subsidiaries	51,604	79,484
Impairment	(14)	-
Other debtors	10,503	23,591
Deferred tax assets	233	267
Prepayments and accrued income	187	172
	<u>67,345</u>	<u>105,066</u>

13 Creditors: amounts falling due within one year

	2018	2017
	\$000	\$000
Trade creditors	20,936	14,735
Amounts owed to group undertakings	262,355	136,770
Other creditors	38,794	20,324
Accruals	1,056	467
Provisions and deferred income	3,020	2,239
Current tax payable	5,991	7,343
	<u>332,152</u>	<u>181,878</u>

14 Creditors: amounts falling due after one year

	2018	2017
	\$000	\$000
Amounts owed to group undertakings	50,000	150,000
Provisions and deferred income	1,457	1,832
	<u>51,457</u>	<u>151,832</u>

Notes (continued)

15 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Tangible fixed assets	62	69	-	-	62	69
Employee benefits	138	168	-	-	157	168
Provisions	33	30	-	-	34	30
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Tax assets	233	267	-	-	253	267
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Movement in deferred tax during the year

	1 January 2018 \$000	Recognised in income \$000	Recognised in equity \$000	31 December 2018 \$000
Tangible fixed assets	69	(7)	-	62
Employee benefits	168	(30)	-	138
Provisions	30	3	-	33
	<hr/>	<hr/>	<hr/>	<hr/>
	267	(14)	-	233
	<hr/>	<hr/>	<hr/>	<hr/>

16 Employee benefits

Defined benefit scheme

The Company participates in the BASF (UK) Group Pension Scheme. The Company introduced the defined contribution plan on 6 April 1998 for new employees. Employees who were already members of the defined benefit plan were offered the opportunity to transfer to the new defined contribution plan. From 1 April 2012 any remaining members of the defined benefit plan were transferred to the defined contributions plan, and the defined benefit plan was closed to future accrual. Assets are held in separate trustee administered fund. BASF PLC, the lead UK Group company operates a group defined benefit scheme, of which some employees of the Company are members.

There is no contractual agreement for charging the net defined benefit cost of the scheme between the companies that participate in the scheme. As a result, the net defined benefit cost of the scheme is recognised in the financial statement of the sponsoring employer, BASF PLC. As the scheme has now been closed to future accrual, there will no longer be any cost attributable to employer contributions.

Information about the plan as a whole can be obtained from the BASF PLC financial statements which are available from PO Box 4, Earl Road, Cheadle Hulme SK8 6QG.

Defined contribution pension scheme

The Company also operates a defined contribution scheme. The scheme operates as part of the BASF (UK) Group Pension Scheme and commenced operation on 6 April 1998. The pension charge for this scheme for the year ended 31 December 2018 was \$410,000 (2017: \$392,000).

Notes (continued)

17 Called up share capital

	2018 \$000	2017 \$000
<i>Allotted, called up and fully paid</i>		
2,900,001 Ordinary shares of £1 each	4,760	4,760
	<u>4,760</u>	<u>4,760</u>

One ordinary B share is held by a subsidiary of the ultimate parent company. This share gives 25% voting rights in the Company to the shareholder.

18 Operating leases

Non-cancellable operating lease rentals (Note 1(q)) are payable as follows:

	2018 \$000	2017 \$000
Operating leases which expire:		
Less than one year	5,963	3,712
Between one and five years	2,101	1,633
More than five years	-	-
	<u>8,064</u>	<u>5,345</u>

19 Commitments

The Company has financial commitments and contingencies which arise from metal operating leases and forward foreign exchange, commodity forwards, commodity options and futures contracts entered into in the normal course of business.

20 Ultimate parent company and parent company of larger group

The Company is a wholly owned subsidiary of BASF Catalysts UK Holdings Limited, a company incorporated in England and Wales with registered office at 21st Floor, 110 Bishopsgate, London, EC2N 4AY, United Kingdom. The directors consider the ultimate controlling party to be BASF Societas Europaea (BASF SE), a company incorporated in Germany.

The largest and smallest group in which the results of the Company are consolidated is that headed by BASF SE.

The consolidated financial statements of BASF SE are available to the public and may be obtained from its registered office at BASF Societas Europaea, D67056 – Ludwigshafen, Germany.

21 Risks from litigation and claims

Between November 2014 and March 2015, a putative class action lawsuit and several additional lawsuits were filed in the United States District Court of the Southern District of New York against BASF Metals Limited along with other defendants, alleging violations of antitrust and commodities laws stemming from the price discovery process for platinum and palladium. The lawsuits were consolidated, and a Second Consolidated Amended Class Action Complaint was eventually filed in July 2015. This Complaint also names as a defendant, among others, BASF Corporation. On 21 September 2015, the defendants filed a Joint Motion to Dismiss the Second Consolidated Amended Class Action Complaint, and BASF Metals Limited and BASF Corporation filed individual motions to dismiss. On 28 March 2017, the Court dismissed the Second Consolidated Amended Class Action Complaint against BASF Corporation and BASF Metals on jurisdictional grounds. On 15 May 2017, the plaintiffs filed an amended Complaint that renews allegations against defendants & BASF Metals Limited, whilst BASF Corporation is not named as a defendant. The defendants filed a renewed Joint Motion to Dismiss and BASF Metals Limited filed a renewed Motion to Dismiss. In 2018, no further developments in this proceeding occurred.

Notes (continued)

21 Risks from litigation and claims (continued)

A pro se complaint filed in September 2015 was dismissed by the U.S. District Court on 19 October 2017. The plaintiff filed an appeal to the U.S. Court of Appeals on 19 November 2017. The plaintiff filed an appeal to the U.S. Court of Appeals on 19 November 2017. The US Court of Appeals for the Second Circuit affirmed dismissal on 28 February 2019. BASF Metals Limited will defend itself against these lawsuits. To our current knowledge, the risk of material adverse effect on the financial statements of the Company arising from current legal proceedings is not probable.

22 Financial risk management

The Company has exposure to the following risks from its use of financial instruments in the normal course of the Company's operations:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Commodity price risks

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

The Company is firmly committed to the management of risks, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by rapid advances in technology and communications. Risk management is given high priority throughout the Company and is integral to the management of the business.

Responsibility for risk management policies and limits and the level of risks assumed, lies with the Board of Directors. The Board charges management with developing, presenting, updating and implementing these policies, controls and limits. The structure is designed to provide assurance that no single event, or combination of events, will materially affect the well-being of the Company.

The Company's Board of Directors and Divisional Management monitor compliance with risk management, assist in assessing market trends, economic and political developments, and providing global strategic direction for all aspects of risk management.

Active, hands-on senior management play a key role in the identification, evaluation and management of all risks. All credit and new product decisions require direct senior management approval.

The Company has in place an extensive number of limit controls and management information systems to facilitate effective management overview.

The following basic elements of sound risk management are applied to all financial instruments, including derivatives:

- appropriate review by the Board of Directors and senior management
- adequate risk management processes which integrate product sectoral risk limits
- sound measurement procedures and information systems
- continuous risk monitoring and frequent management reporting
- segregation of duties, comprehensive internal controls and internal audit procedures

Notes (continued)

22 Financial risk management (continued)

Credit Risk

Credit risks arises when counterparties do not fulfil their contractual obligations.

The credit risk management process is performed according to BASF guidelines and these activities include the establishment of customer Credit Limits, the credit hold and release process, the on-going credit review of customer accounts, and timely payment collection of outstanding invoices.

All counterparties are assessed for credit purposes and trading facilities are granted accordingly. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit.

Only counterparties assessed to be creditworthy are dealt with by the Company, accordingly no analysis of financial assets by credit rating has been provided.

The Company mitigates the credit risk of derivatives by entering into derivatives under International Swaps and Derivatives Association (ISDA) or similar master netting agreements. In general, under these netting agreements in certain circumstances (e.g. when a credit event such as a default occurs) all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions.

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Company's Balance Sheet; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, such as derivatives, irrespective of whether they are offset in the Balance Sheet.

Financial instruments such as debtors and creditors are not disclosed in the tables below unless they are offset in the Balance Sheet.

a) Financial assets subject to offsetting, enforceable master netting agreements and similar arrangements

31 December 2018

In \$'000	Gross amount of recognised financial assets	Gross amounts of recognised financial liabilities offset in the Balance Sheet	Net amount of financial assets presented in the Balance Sheet	Related amounts not offset	Net amount
Types of financial asset					
Derivatives financial asset	27,317	(167)	27,150	(9,005)	18,145
Total	27,317	(167)	27,150	(9,005)	18,145

31 December 2017

In \$'000	Gross amount of recognised financial assets	Gross amounts of recognised financial liabilities offset in the Balance Sheet	Net amount of financial assets presented in the Balance Sheet	Related amounts not offset	Net amount
Types of financial asset					
Derivatives financial asset	18,471	(821)	17,650	(17,650)	-
Total	18,471	(821)	17,650	(17,650)	-

Notes (continued)

22 Financial risk management (continued)

Credit Risk (continued)

b) Financial liabilities subject to offsetting, enforceable master netting agreements and similar arrangements

31 December 2018

In \$'000	Gross amount of recognised financial liabilities	Gross amounts of recognised financial assets offset in the Balance Sheet	Net amount of financial liabilities presented in the Balance Sheet	Related amounts not offset	Net amount
Types of financial liability					
Derivatives financial liability	9,172	(167)	9,005	(9,005)	-
Total	9,172	(167)	9,005	(9,005)	-

31 December 2017

In \$'000	Gross amount of recognised financial liabilities	Gross amounts of recognised financial assets offset in the Balance Sheet	Net amount of financial liabilities presented in the Balance Sheet	Related amounts not offset	Net amount
Types of financial liability					
Derivatives financial liability	20,802	(821)	19,981	(17,650)	2,331
Total	20,802	(821)	19,981	(17,650)	2,331

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the Balance Sheet on the fair value bases.

The tables below reconcile the 'Net amounts of financial assets and liabilities presented in the Balance Sheet', as set out above, to the line items presented in the Balance Sheet.

31 December 2018

In \$'000	Net amount	Line item in Balance Sheet	Carrying amount in Balance Sheet	Financial assets not in scope of offsetting disclosures	Note
Type of financial asset					
Derivative financial asset	27,150	Derivative financial asset (current and non-current)	116,244	89,094	11
Type of financial liability					
Derivative financial liability	9,005	Derivative financial liability (current and non-current)	90,832	81,827	11

31 December 2017

In \$'000	Net amount	Line item in Balance Sheet	Carrying amount in Balance Sheet	Financial assets not in scope of offsetting disclosures	Note
Type of financial asset					
Derivative financial asset	17,650	Derivative financial asset (current and non-current)	95,807	78,157	11
Type of financial liability					
Derivative financial liability	19,981	Derivative financial liability (current and non-current)	125,036	105,055	11

Notes (continued)

22 Financial risk management (continued)

Credit Risk (continued)

The maximum exposure to credit risk at the balance sheet date was \$181,578,000 (2017: \$197,092,000) being the total of the carrying amount of financial on balance sheet assets. This exposure is limited by \$167,000 (2017: \$821,000) of related credit derivatives with the same counterparties.

The company applies the simplified approach permitted by IFRS 9 for the impairment of trade debtors. Under this approach, the loss allowance is always measured at an amount equal to lifetime expected credit losses. Expected losses on trade debtors are calculated on the basis of internal or external customer ratings and the associated probability of default since 1st January 2018.

A summary of the Company's exposure to credit risk for third party and intercompany trade debtors by credit risk rating grade is as follows:

31 December 2018

	Credit impaired Gross \$000	Not Credit impaired Gross \$000	Impairment \$000
Credit risk rating grade			
From High/Medium credit rating	39,495	-	14

Comparative information presented for prior period under IAS 39

The aging of financial assets which include amounts past due at the balance sheet date was:

31 December 2017

	Not past due \$000	1-60 days \$000	60-120 days \$000	Over 120 days \$000	Total \$000
Trade debtors	-	1,059	493	-	1,552
Amounts owed by group companies	77,603	1,881	-	-	79,484
Total	77,603	2,940	493	-	81,036

Sovereign Risk

The Company's group parent has established procedures to manage country risk, given that during the year there continued to be periods of significant volatility in Eurozone bond markets.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they fall due as a result of a mismatch in cash flows arising from liabilities and assets. To mitigate this risk, the liquidity structure of assets, liabilities and commitments is managed so that the resultant cash flows are appropriately balanced to ensure that all obligations can be met when due.

The Company's derivative financial instruments are hedged with other group entities in order to hedge open positions and resultant liquidity risk. As a result of these arrangements, all the cash inflows are exactly matched with the cash outflows on these financial instruments.

Notes (continued)

22 Financial risk management (continued)

Liquidity Risk (continued)

The following tables set out the contractual maturities of financial liabilities.

31 December 2018

	Carrying amount \$000	Under 3 months \$000	3-12 months \$000	1-2 years \$000	Over 2 years \$000	Total \$000
Derivatives	90,832	26,786	48,882	15,088	76	90,832
Non derivatives:						
Trade creditors	20,935	20,935	-	-	-	20,935
Amounts owed to group companies	312,355	162,355	100,000	-	50,000	312,355
Total	424,122	210,076	148,882	15,088	50,076	421,122

31 December 2017

	Carrying amount \$000	Under 3 months \$000	3-12 months \$000	1-2 years \$000	Over 2 years \$000	Total \$000
Derivatives	125,036	69,091	41,754	10,617	3,574	125,036
Non derivatives:						
Trade creditors	14,735	14,735	-	-	-	14,735
Amounts owed to group companies	286,770	136,770	-	100,000	50,000	286,770
Total	426,541	220,596	41,754	110,617	53,574	426,541

Trading liabilities and derivatives have been allocated a liquidity outflow based on the contractual maturity of the instrument.

Market Risk

Market risk is the risk of loss from changes in market prices and rates, the correlations among them, and their levels of volatility.

The Company's trading activities are accounted for on a mark-to-market basis, and financial assets, financial liabilities and derivatives which form part of such activities are accounted for at fair value through the profit and loss account.

Trading limits of precious metal positions are established for each trading book and individual limits are allocated to each legal entity within the division, which take into account volumetric and market value considerations, and are subject to regular review. All trading limits are monitored daily by the Operations department and are signed off by the Operations Manager. The Finance department, with the help of the dealing desk, uses a variety of tools that are available to them in order to monitor price movements.

All exposures are marked-to-market and monitored against their respective limits on a daily basis.

Notes (continued)

22 Financial risk management (continued)

Market Risk (continued)

Foreign Currency Risk

Currency risk arises as a result of the Company having financial assets and liabilities denominated in a number of foreign currencies. Currency transactions are matched where possible in order to eliminate currency exposures. The Company does not actively speculate in foreign currencies and does not deal in foreign exchange forwards, options or futures except to the limited extent necessary to hedge cash flows arising from its own activities. As a result, the Company does not have material exposure to foreign currency risk.

Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustments within a specific period. The Company utilises swaps when required by particular customer transactions, but hedges its position using a back to back contract with other group companies to mitigate any exposures from these transactions. As a result, the Company does not have a material exposure to interest rate risk.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems, or from external events.

Operational risks are managed and controlled within the individual business lines and a wide variety of checks and balances to address operational risks have been developed as an important part of the Company's risk management culture. They include adoption of the overall, group-wide standards and policies established by the Ultimate Parent (BASF SE) to ensure proper risk analysis and control, including risk management policies, a rigorous planning process, regular organisational review, thorough enforcement of the Company's Guidelines on Business Conduct and clearly defined and documented approval authorities.

The Company is also subject to an internal compliance program, the elements of which are regulatory awareness, regulatory risk assessment, compliance monitoring and reporting. Regular audits by the Internal Audit Department which includes comprehensive reviews of the design and operation of internal control systems in all business and support groups, new products and systems and the reliability and integrity of data processing operations. The Company's management approves an annual audit scope and plan and reviews all subsequent reports and management responses to ensure appropriate corrective action is taken.

Commodity price risks

The Company constantly monitors the risks by a combination of internal reports and external market information system. The exposure related to this risk is reduced due to natural hedges based on the contract terms with counterparties. If necessary, the Company enters into hedging activities in order to further reduce the exposure.

23 Fair value of financial instruments

The Company determines fair values of financial instruments not traded in active markets by the use of valuation techniques. Financial instruments that trade infrequently or have little price transparency require varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The information set out below provides information about how the Company determines fair values of various financial assets and financial liabilities. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Notes (continued)

23 Fair value of financial instruments (continued)

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1 – inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. as derived from prices).

Level 3 – inputs that are unobservable, thereby allowing for situations in which there is little, if any, market activity for the instrument.

The fair values of derivative financial instruments are determined in a valuation model using market prices as its basis for calculation. Where prices are not available for longer dated instruments, this model assumes that the calculated forward prices will continue along the curve created by prices already observed within the model.

Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the balance sheet.

		2018			
	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Derivative Financial Assets	11	-	116,244	-	116,244
Total		-	116,244	-	116,244
Derivative Financial Liabilities	11	3,706	87,126	-	90,832
Total		3,706	87,126	-	90,832
		2017			
	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Derivative Financial Assets	11	-	95,807	-	95,807
Total		-	95,807	-	95,807
Derivative Financial Liabilities	11	9,940	115,096	-	125,036
Total		9,940	115,096	-	125,036

Notes (continued)

24 Change in significant accounting policies

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 with a date of initial application of 1st January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. Differences in the carrying amount of financial assets and financial liabilities resulting from the adoption of IFRS 9 would be recognised in retained earnings at 1st January 2018.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities held at FVTPL.

The Company has the following financial assets that are subject to IFRS 9's new expected credit loss model:

- Debtors
- Cash and cash equivalents

There were no classification changes to the above assets and they continue to be classified at amortised cost. The Company was however required to change its impairment methodology for each of these assets. While cash and cash equivalents, third party trade debtors and amounts owed by group undertakings are subject to the impairment requirements of IFRS 9, the identified impairment loss was negligible.

There were no changes to the classification and measurement of financial liabilities.