

Macquarie Physical Commodities UK Limited
COMPANY NUMBER 09995266

Strategic Report, Directors' Report and Financial Statements
for the financial year ended 31 March 2019



The Company's registered office is:
Ropemaker Place
28 Ropemaker Street
London EC2Y 9HD
United Kingdom



Macquarie Physical Commodities UK Limited

2019 Strategic Report, Directors' Report and Financial Statements Contents

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Macquarie Physical Commodities UK Limited

Strategic Report for the financial year ended 31 March 2019

In accordance with a resolution of the directors (the "Directors") of Macquarie Physical Commodities UK Limited (the "Company"), the Directors submit herewith the Strategic Report of the Company as follows:

Principal activities

The Company was established for the principal purpose of engaging in the purchase, sale, storage, transport and financing of physical commodities (e.g. uranium, oil, coal) at various locations globally. Such activity further includes related hedging activity and the engagement of connected services.

Review of operations

The profit for the financial year ended 31 March 2019 was US\$2,025,475 as compared to a profit of US\$480,683 in the previous year.

Net operating income for the year ended 31 March 2019 was US\$1,833,046, as compared to a profit of US\$523,994 in the previous year.

Total operating expenses for the year ended 31 March 2019 were US\$321,112, an increase of 92 percent from US\$167,093 in the previous year.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Macquarie Group and are not managed separately. Accordingly, the principal risks and uncertainties of Macquarie Group Limited ("MGL"), which include those of the Company, are discussed in MGL's financial statements and can be obtained from the address given in Note 22.

Financial risk management

Risk is an integral part of the Macquarie Group's businesses. The Company is exposed to a variety of financial risks that include the effect of credit risk, liquidity risk, operational risk, and market risk. Additional risks faced by the Company include legal, compliance and documentation risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group ("RMG") to ensure appropriate assessment and management of these risks.

As ultimately an indirect subsidiary of MGL, the Company manages risk within the framework of the overall strategy and risk management structure of the Macquarie Group. RMG is independent of all other areas of the Macquarie Group, reporting directly to the Managing Director and the Board of MGL. The Head of RMG is a member of the Executive Committee of MGL. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board of MGL. The risks which the Company is exposed to are managed on a globally consolidated basis for MGL as a whole, including all subsidiaries, in all locations. Macquarie's internal approach to risk ensures that risks in subsidiaries are subject to the same rigour and risk acceptance decisions.

Credit risk

Credit exposures, approvals and limits are controlled within the Macquarie Group's credit framework, as established by RMG.

Liquidity risk

Liquidity risk is the risk of an entity encountering difficulty in meeting obligations with financial liabilities. The Directors have adopted the risk model used by the Macquarie Group, as approved by RMG. This model is incorporated into the Macquarie Group's risk management systems to enable the Company to manage this risk effectively.

Macquarie Physical Commodities UK Limited

Strategic Report (continued) for the financial year ended 31 March 2019

Financial risk management (continued)

Market risk

The Company is exposed to market risk through its facilitation and market making activities. The Directors have adopted the risk model used by the Macquarie Group, as approved by RMG. This model is incorporated into the Macquarie Group's risk management systems to enable the Company to manage this risk effectively.

Interest rate risk

The Company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include cash balances and receivables from other Macquarie Group undertakings and external parties, all of which earn a variable rate of interest. Interest bearing liabilities include payables to other Macquarie Group undertakings and external parties, which also incur a variable rate of interest.

Foreign exchange risk

The Company has foreign exchange exposures which include amounts receivable from and payable to other Macquarie Group undertakings and external parties which are denominated in non-functional currencies. Any material non-functional currency exposures are managed by applying a group wide process of minimising exposure at an individual company level.

Other matters

Given the straightforward nature of the business and the information provided elsewhere in this report, the Directors are of the opinion that the production of financial and non-financial key performance indicators, the Company's business impact on the environment and social, community and human rights issues in the Strategic Report is not necessary for an understanding of the development, performance or position of the business.

On behalf of the Board


Director
17 December 2019
JONATHAN GAYLARD

Macquarie Physical Commodities UK Limited

Company Number 09995266

Directors' Report for the financial year ended 31 March 2019

In accordance with a resolution of the Directors of the Company, the Directors submit herewith the audited financial statements of the Company and report as follows:

Directors and Secretaries

The Directors who each held office as a Director of the Company throughout the year and until the date of this report, unless disclosed otherwise, were:

B Donnelly	(appointed 30 October 2019)
J Gaylard	
S McNair	
P Plewman	(resigned 30 October 2019)

The Secretary who held office as Secretary of the Company throughout the year and until the date of this report, unless disclosed otherwise, was:

H Everitt

Results

The profit for the financial year ended 31 March 2019 was US\$2,025,475 (2018: US\$480,683).

Dividends paid or provided for

No final dividends were paid or provided for during the current financial year (2018: US\$nil). No final dividend has been proposed.

State of affairs

There were no other significant changes in the state of the affairs of the Company that occurred during the current financial year under review not otherwise disclosed in the Directors' report.

Events after the reporting period

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in the financial years subsequent to 31 March 2019 not otherwise disclosed in this report.

Likely developments, business strategies and prospects

The Directors believe that no significant changes are expected other than those already disclosed in this report. The financial risk management objectives and policies of the Company and the exposure of the Company to credit risk, liquidity risk, interest rate risk, market risk and foreign exchange risk are contained within the Strategic Report.

Indemnification and insurance of Directors

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The ultimate parent purchased and maintained throughout the financial year directors' liability insurance in respect of the Company and its Directors.

Macquarie Physical Commodities UK Limited
Company Number 09995266

Directors' Report (continued)
for the financial year ended 31 March 2019

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, 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 the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Disclosure of information to Auditors

In the case of each Director in office at the date the Directors' Report is approved:

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

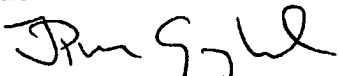
Independent Auditors

Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Company are deemed re-appointed for each financial year unless the Directors or the members of the Company resolve to terminate their appointment. As at the date of these financial statements, the Directors are not aware of any resolution to terminate the appointment of the auditors.

On behalf of the Board

Director

17 December 2019


JONATHAN GAYLARD

Independent auditors' report to the members of Macquarie Physical Commodities UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Macquarie Physical Commodities UK Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 1 April 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2019; the profit and loss account, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent Auditors' Report to the members of Macquarie Physical Commodities UK Limited

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 1 April 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also 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.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent Auditors' Report to the members of Macquarie Physical Commodities UK Limited

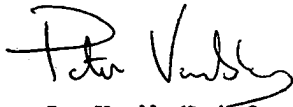
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



**Peter Venables (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London**

17 December 2019

Macquarie Physical Commodities UK Limited

Financial Statements

Profit and loss account for the financial year ended 31 March 2019

	Note	2019 ¹ US\$	2018 US\$
Net trading income/(expense)	3	25,185,209	(11,315,390)
Fee (expense)/income	3	(23,031,051)	12,006,477
Administrative expenses		(156,634)	(354,279)
Other operating (expense)/income	3	(164,478)	187,186
Operating profit		1,833,046	523,994
Interest receivable and similar income	4	3,316,670	2,323,564
Interest payable and similar charges	5	(2,656,118)	(2,254,122)
Profit on ordinary activities before taxation	3	2,493,598	593,436
Tax on profit on ordinary activities	6	(468,123)	(112,753)
Profit for the financial year		2,025,475	480,683

The above profit and loss account should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

Operating profit on ordinary activities before taxation relates wholly to continuing operations.

There were no other comprehensive income and expenses other than those included in the results above and therefore no separate statement of comprehensive income has been presented.

¹ The March 2019 financial results reflect the adoption of IFRS 9 – *Financial Instruments* ("IFRS 9") on 1 April 2018. As permitted by IFRS 9, the Company has not restated previously reported financial periods. The effect of the adoption of these standards is explained in Note 2.

Macquarie Physical Commodities UK Limited

Balance Sheet as at 31 March 2019


	Note	2019 ¹ US\$	2018 US\$
Current assets			
Debtors	7	71,577,366	81,649,871
Derivative assets	17	43,171,236	29,306,151
		114,748,592	110,855,822
Current liabilities			
Creditors: amounts falling due within one year	8	(716,422)	(17,916,449)
Deposits	9	(4,557,878)	(9,085,587)
Derivative liabilities	17	(50,548,259)	(10,691,820)
		(55,822,559)	(37,693,868)
Net current assets		58,926,033	73,161,888
Total assets less current liabilities		58,926,033	73,161,888
Creditors: amounts falling due after more than one year	10	(49,307,001)	(65,534,500)
Net assets		9,619,032	7,627,366
Capital and reserves			
Called up share capital	11	7,000,000	7,000,000
Profit and loss account	12	2,619,032	627,366
Total shareholders' funds		9,619,032	7,627,366

The above balance sheet should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

¹The March 2019 financial results reflect the adoption of IFRS 9 – *Financial Instruments* (IFRS 9) on 1 April 2018. As permitted by IFRS 9, the Company has not restated previously reported financial periods. The effect of the adoption of these standards is explained in Note 2.

The financial statements on pages 8 to 31 were authorised for issue by the Board of Directors on 17th December 2019 and were signed on its behalf by:

Director


JONATHAN GAYLARD

Macquarie Physical Commodities UK Limited

Statement of changes in equity for the financial year ended 31 March 2019

	Note	Called up share capital US\$	Profit and loss account US\$	Total shareholders' funds US\$
Balance at 1 April 2017		7,000,000	146,683	7,146,683
Profit for the financial year	12	-	480,683	480,683
Other comprehensive income		-	-	-
Total comprehensive income		-	480,683	480,683
Balance at 31 March 2018		7,000,000	627,366	7,627,366
Change on initial application of IFRS 9		-	(33,809)	(33,809)
Restated balance at 1 April 2018		7,000,000	593,557	7,593,557
Profit for the financial year	12	-	2,025,475	2,025,475
Other comprehensive income		-	-	-
Total comprehensive income		-	2,025,475	2,025,475
Balance at 31 March 2019		7,000,000	2,619,032	9,619,032

The above statement of changes in equity should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

Macquarie Physical Commodities UK Limited

Notes to the financial statements for the financial year ended 31 March 2019

Note 1. Company information

The Company is a private company limited by shares and is incorporated and domiciled in the United Kingdom and registered in England and Wales. The address of its registered office is Ropemaker Place, 28 Ropemaker Street, London, EC2Y 9HD, United Kingdom.

Note 2. Summary of significant accounting policies

i) Basis of preparation

The principal accounting policies adopted in the preparation of these financial statements have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). The financial statements have been prepared in accordance with the Companies Act 2006 and under the historical cost convention except for financial instruments (including derivatives) required to be measured at fair value through profit or loss (FVTPL).

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in FRS 101 which addresses the financial reporting requirements and disclosure exemptions in the financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted International Financial Reporting Standards ('IFRS').

The Company is a qualifying entity for the purposes of FRS 101. Note 22 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

In accordance with FRS 101, the Company has availed of an exemption from the following paragraphs of IFRS:

- The requirements of paragraphs 38 of International Accounting Standards ("IAS") 1 'Presentation of Financial Statements' to present comparative information in respect of Paragraph 79(a)(v) of IAS 1 (reconciliation of shares outstanding).
- The requirements of paragraphs of IAS 1, 'Presentation of financial statements':
 - 10 (d), (statement of cash flows),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38 B-D (additional comparative information), and
 - 111 (cash flow statement information).
- The requirements of IAS 7 'Statement of Cash Flows'.
- The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- The requirements of paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation).
- The requirements of IAS 24 to disclose related party transactions entered into between two or more members of a group where both parties to the transaction are wholly owned within the group.
- The requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'.

Critical accounting estimates and significant judgements

The preparation of the financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Company and the financial statements such as:

- judgement and estimate in fair value of financial assets and financial liabilities (Note 20);
- judgement in measurement of Expected Credit Loss (ECL) including the choice of inputs, estimates and assumptions relating to information about past events, current conditions and forecasts of economic conditions (Note 2(viii));
- judgement in determining the appropriate business model for a group of financial assets and assessing whether the cash flows generated by an asset constitute solely payment of principal and interest (SPPI)

Macquarie Physical Commodities UK Limited

Notes to the financial statements for the financial year ended 31 March 2019 (continued)

Note 2. Summary of significant accounting policies (continued)

i) Basis of preparation (continued)

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Management believes that the estimates used in preparing the financial statements are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from management's assumptions and estimates could require an adjustment to the carrying amounts of the reported assets and liabilities.

New Accounting Standards and amendments to Accounting Standards and that are effective in the current financial year

IFRS 9 *Financial Instruments*

IFRS 9 replaced International Accounting Standard 39 Financial Instruments: Recognition and Measurement ("IAS 39") from 1 April 2018. IFRS 9 resulted in changes to accounting policies covering the classification, measurement and impairment of financial assets and the application of hedge accounting. The Company has applied the requirements of IFRS 9 in the current financial year beginning 1 April 2018.

Transition:

As permitted by IFRS 9, the Company has not restated its comparative financial statements and has recorded transition adjustments to its opening balance sheet, retained earnings at 1 April 2018 for the impact of the adoption of the IFRS 9 requirements.

The transition adjustment did not have a material impact and resulted in a reduction of the Company's shareholders' funds by \$33,809. This transition adjustment had no tax impact.

The key changes in the Company's significant accounting policies from the transition to IFRS 9 have been included within the relevant sections of this note and other notes in this Financial Report.

The adoption of the Classification and Measurement requirements of the standard does not result in significant measurement differences when compared to those under IAS 39.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all the previous guidance on revenue recognition from contracts with customers. It requires the identification of discrete performance obligations within a customer contract and an associated transaction price is allocated to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occurs when control of the goods or services are transferred to the customer.

The Company adopted IFRS 15 on 1 April 2018 and based on the assessment it has been concluded that all income streams are outside the scope of IFRS 15 so there is no transition impact due to adoption on the timing or amount of revenue recognised at 31 March 2018.

ii) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

iii) Foreign currency translations

Functional and presentation currency

The functional currency of the Company is determined as the currency of the primary economic environment in which the foreign operation operates (the functional currency). The Company's financial statements are presented in 'United States Dollar' (US\$), which is also the Company's functional currency.

Macquarie Physical Commodities UK Limited

Notes to the financial statements for the financial year ended 31 March 2019 (continued)

Note 2. Summary of significant accounting policies (continued)

iii) Foreign currency translations (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on financial instruments measured at fair value through profit or loss, are reported as part of the fair value gain or loss in the profit and loss account.

iv) Revenue and expense recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for each major revenue stream as follows:

Net interest income

Interest income and expense is recognised using the effective interest rate (EIR) method for financial assets and liabilities carried at amortised cost. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs that are integral to the lending arrangement are recognised in the profit and loss account over the expected life of the instrument in accordance with the EIR method.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the re-measurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

Net trading income/(expense)

Net trading income comprises gains and losses related to trading assets/liabilities and derivatives including all realised and unrealised fair value changes and foreign exchange differences.

Fee (expense)/income

Fee (expense)/income related to other Macquarie Group entities involved in the purchase, sale, storage, transport and financing of uranium products.

Other operating (expense)/income

Other operating income/(expense) comprises other gains and losses relating to foreign exchange differences.

Expenses

Expenses are brought to account on an accrual basis and, if not paid at the end of the reporting period, are reflected on the balance sheet as a payable.

v) Taxation

The principles of the balance sheet method of tax effect accounting have been adopted whereby the income tax expense for the financial year is the tax payable on the current year's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and unused tax losses.

Current taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

The Company undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Company estimates the amount expected to be paid to/(recovered from) tax authorities based on its understanding of the law.

Macquarie Physical Commodities UK Limited

Notes to the financial statements for the financial year ended 31 March 2019 (continued)

Note 2. Summary of significant accounting policies (continued)

vi) Financial instruments

Loans and receivables includes balances in the course of settlement, loan assets held at amortised cost and amounts due from other Macquarie Group undertakings, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan assets are subject to regular review and assessment for possible impairment.

Recognition of financial instruments

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. A financial instrument is initially recognised at fair value adjusted for (in the case of instruments not carried at fair value through profit or loss, (FVTPL)) transaction costs that are incremental and directly attributable to the acquisition or issuance of the financial instrument.

De-recognition of financial instruments

Financial assets

Financial assets are de-recognised from the balance sheet when:

- the rights to cash flows have expired
- the Company has transferred the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset.

Financial liabilities

Financial liabilities are de-recognised from the balance sheet when the Company's obligation has been discharged, cancelled or has expired.

Classification and subsequent measurement

Financial assets

Financial assets are classified based on the business model within which the asset is held and on the basis of the financial asset's contractual cash flow characteristics.

Business model assessment

The Company determines the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

- (i) how the performance of the financial assets held within that business model is evaluated and reported to the Macquarie Group's key management personnel;
- (ii) the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;
- (iii) how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The Company exercises judgement to determine the appropriate level at which to assess its business models and its intention with respect to its financial assets.

Solely payment of principal and interest (SPPI)

Key considerations for the SPPI assessment include the timing of the contractual cash flows and the interest component, where interest primarily reflects the time value of money and the credit risk of the principal outstanding.

Amortised cost

A financial asset is subsequently measured at amortised cost using the EIR method if the following conditions are met:

- (i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements; and
- (iii) the financial asset has not been designated to be measured at FVTPL (DFVTPL).

Interest income determined in accordance with the EIR is recognised in interest income. Gains and losses arising from the derecognition of financial assets that are measured on an amortised cost basis are recognised as part of other operating income and charges.

Macquarie Physical Commodities UK Limited

Notes to the financial statements for the financial year ended 31 March 2019 (continued)

Note 2. Summary of significant accounting policies (continued)

vi) Financial instruments (continued)

Fair value through profit or loss (FVTPL)

Financial assets that do not meet the criteria to be measured at amortised cost or FVOCI are measured at FVTPL, with all changes in fair value recognised as part of other operating income and expenses in the profit and loss account.

For the purposes of the Company's financial statements, the FVTPL classification consists of financial assets that are held for active trading (held for trading or 'HFT'). This classification includes all derivative financial assets

For financial instruments measured at FVTPL, the best evidence of fair value at initial recognition is its transaction price, unless its fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique for which variables include only data from observable markets. Where such alternative evidence exists, the Company recognises profit or loss immediately when the financial instrument is recognised ('day 1 profit or loss'). When significant unobservable inputs are used to determine fair value, the day 1 profit is deferred and is recognised in the profit and loss account over the life of the transaction or when the inputs become observable.

Changes in the fair value of HFT financial instruments are recognised in net trading income.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost, unless they are either held for trading purposes, in which case they are classified as HFT, or have been designated to be measured at FVTPL (DFVTPL). A financial liability may be DFVTPL if:

- the liability contains embedded derivatives which must otherwise be separated and carried at fair value
- doing so eliminates or significantly reduces an accounting mismatch.

All derivative liabilities are classified as HFT.

Gains and losses arising from the derecognition of financial liabilities that are subsequently measured on an amortised cost basis are recognised in other income as part of other operating income and expenses. The changes in fair value of financial liabilities that are classified as HFT are recognised as part of net trading income. Changes in the fair value of financial liabilities that are classified as DFVTPL are recognised in other income as part of other operating income and expenses. The interest component of financial liabilities that are classified as HFT or DFVTPL is recognised in interest expense.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported on the balance sheet when there is a legally enforceable right to offset the amounts and either there is an intention to settle on a net basis or realise the financial asset and settle the financial liability simultaneously.

vii) Derivative instruments

Derivative instruments entered into by the Company include forwards and swaps in the interest rate, foreign exchange, and commodity markets. These derivative instruments are principally used by the Company for the purposes of risk management of existing financial and non-financial assets and liabilities and entered into for client trading purposes. All derivatives, including those held for hedging purposes, are classified as HFT. Derivatives are recognised in the balance sheet as an asset where they have a positive fair value at balance date or as a liability where the fair value at the balance date is negative.

Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models, as appropriate.

The best evidence of a derivative's fair value at initial recognition is its transaction price, unless its fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique for which variables include only data from observable markets. Where such alternative evidence exists, the Company recognises profit or loss immediately when the derivative is recognised ('day 1 profit or loss'). When significant unobservable inputs are used to determine fair value, the day 1 profit or loss is deferred and is recognised in the profit and loss account over the life of the transaction or when the inputs become observable. The Company applies this day 1 profit or loss policy to all financial instruments measured at fair value.

Macquarie Physical Commodities UK Limited

Notes to the financial statements for the financial year ended 31 March 2019 (continued)

Note 2. Summary of significant accounting policies (continued)

viii) Impairment Expected credit losses ("ECL")

The ECL requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, amounts receivable from contracts with customers, loan commitments, certain letters of credit and financial guarantee contracts. The Company applies a three-stage approach to measuring the ECL based on changes in the financial asset's underlying credit risk and includes forward-looking or macro-economic information (FLI). Where ECL is modelled collectively for portfolios of exposures, it is modelled as the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD).

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

(i) Stage I – 12 month ECL

At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR) since initial recognition (or for those financial assets for which the credit risk is considered to be low), ECL is determined based on the PD over the next 12 months and the lifetime losses associated with such PD, adjusted for FLI.

Interest income is determined by applying the financial asset's EIR to the financial asset's gross carrying amount.

(ii) Stage II – Lifetime ECL not credit-impaired

When there has been a SICR since initial recognition, the ECL is determined with reference to the financial asset's life-time PD and the lifetime losses associated with that PD, adjusted for FLI. The Company assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable FLI that includes significant management judgement.

Use of more alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based upon the contractual maturity of the financial asset. For revolving facilities, the Company exercises judgement based on the behavioural, rather than contractual characteristics of the facility type.

Interest income is determined by applying the financial asset's EIR to the financial asset's gross carrying amount.

(iii) Stage III – Lifetime ECL credit-impaired

Financial assets are classified as stage III where they are determined to be credit impaired. This includes exposures that are at least 90 days past due and where the obligor is unlikely to pay without recourse against available collateral.

The ECL for credit impaired financial assets is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the EIR for that exposure. For credit-impaired exposures that are modelled collectively, ECL is measured as the product of the lifetime PD, LGD and EAD, adjusted for FLI.

Interest income is determined by applying the financial asset's EIR to the financial asset's amortised cost carrying value, being the gross carrying value after the ECL provision.

When the Company concludes that there is no reasonable expectation of recovering cash flows from the financial asset, and all possible collateral has been realised, the financial asset is written off, either partially or in full, against the related provision. Recoveries of loans previously written off are recorded based on the cash received.

ix) Called up share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

	2019	2018
	US\$	US\$

Note 3. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

Net trading (income)/expense	(25,185,209)	11,315,390
Fee expense/(income) from other Macquarie group undertakings	23,031,051	(12,006,477)
Credit impairment charges ¹	66,316	-
Foreign exchange losses/(gains)	108,161	(187,186)
Brokerage expenses	108,430	92,839
Auditors' remuneration		
Fees payable to the Company's auditors for the audit of the Company	45,185	42,004

The Company had no employees during the current and previous financial year.

¹The change in expected credit losses relating to financial assets under IFRS 9 is recorded under Credit impairment charges. Individual and collective provisions for March 2018 remain in accordance with IAS 39 and have not been restated.

Note 4. Interest receivable and similar income

Interest receivable from other Macquarie Group undertakings	3,316,670	2,323,564
Total interest receivable and similar income	3,316,670	2,323,564

Note 5. Interest payable and similar charges

Interest payable to other Macquarie Group undertakings	2,656,118	2,254,122
Total interest payable and similar charges	2,656,118	2,254,122

Note 6. Taxation

(i) Tax expense included in profit or loss		
Current tax		
UK corporation tax at 19% (2018: 19%)	(473,784)	(112,753)
Foreign tax suffered	5,661	-
Total current tax	(468,123)	(112,753)
Tax on profit on ordinary activities	(468,123)	(112,753)

(ii) Tax expense included in profit or loss

The income tax expense for the year ended 31 March 2019 is lower (2018: equal) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

Profit on ordinary activities before taxation	2,493,598	593,436
Current tax charge at 19% (2018: 19%)	(473,784)	(112,753)
Effects of foreign tax suffered	5,661	-
Total current tax	(468,123)	(112,753)

The UK Government have enacted a reduction in the main rate of corporation tax from 20% to 19% from 1 April 2017 and a further reduction to 17% from 1 April 2020.

Note 7. Debtors

Amounts owed by Macquarie group undertakings ¹	68,729,108	67,322,099
Reverse repurchase agreements	-	8,153,951
Trade debtors	2,848,248	6,073,621
Total debtors	71,577,356	81,549,671

¹Amounts owed by other Macquarie Group undertakings are unsecured and have no fixed date of repayment. The Company derives interest on intercompany balances to group undertakings at market rates and at 31 March 2019 the rate applied was LIBOR plus 1.48% (2018: ranged between LIBOR plus 1.16% to LIBOR plus 1.38%). At the reporting date, amounts owed from other Macquarie Group undertakings has ECL allowance of £88,110 (2018: £nil) which is net presented against the gross carrying amount.

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

	2019	2018
	US\$	US\$
Note 8. Creditors: amounts falling due within one year		
Amount owed to Macquarie group undertakings ¹	248,298	17,893,033
Taxation	468,124	23,416
Total creditors: amounts falling due within one year	716,422	17,916,449

¹Amounts owed to other Macquarie Group undertakings are unsecured and have no fixed date of repayment. The Company incurs interest on intercompany balances at market rates and at 31 March 2019 the rate applied was LIBOR plus 1.46% (2018: LIBOR plus 1.94%).

Note 9. Deposits		
Margin deposits	4,557,878	9,085,587
Total deposits	4,557,878	9,085,587

Of the above, the entire balance is expected to be settled within 12 months of the balance sheet date by the Company.

Note 10. Creditors: amounts falling due after more than one year		
Amount owed to Macquarie group undertakings	49,307,001	65,534,600
Total creditors: amounts falling due after more than one year	49,307,001	65,534,600

Macquarie Bank Limited (London Branch) has provided long term debt funding of US\$27,215,750 maturing 28 August 2020, US\$7,687,500 maturing 16 February 2021, US\$8,200,000 maturing 31 January 2022 and US\$22,431,250 maturing 27 June 2022. The Company incurs interest on amounts to Group undertakings at market rates and at 31 March 2019 the rate applied was LIBOR plus 1.46% (2018: LIBOR plus 1.94%).

Note 11. Called up share capital

	2019	2018	2019	2018
	Number of shares	Number of shares	US\$	US\$
Ordinary share capital				
Opening balance	7,000,000	7,000,000	7,000,000	7,000,000
Closing balance of ordinary shares at US\$1 per share	7,000,000	7,000,000	7,000,000	7,000,000
Authorised share capital				
Ordinary shares at US\$1 per share	7,000,000	7,000,000	7,000,000	7,000,000

Note 12. Profit and loss account

	2019	2018
	US\$	US\$
Profit and loss account		
Balance at the beginning of the financial year	627,366	146,683
Change on initial application of IFRS 9 (Note 2)	(33,809)	-
Restated balance as at 1 April 2018	593,557	146,683
Profit for the financial year	2,025,475	480,683
Balance at the end of the financial year	2,619,032	627,366
Total profit and loss account	2,619,032	627,366

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 13. Capital management strategy

The Company's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

The Company's capital management objectives are to:

- ensure sufficient capital resource to support the Company's business and operational requirements;
- safeguard the Company's ability to continue as a going concern.

Periodic reviews of the entity's capital requirements are performed to ensure the Company is meeting its objectives.

Capital is defined as share capital plus reserves, including profit and loss account.

Note 14. Related party information

As 100% of the voting rights of the Company are controlled within the group headed by MGL, incorporated in Australia, the Company has taken advantage of the exemption contained in FRS 101 and has therefore not disclosed transactions or balances with entities which form part of the Macquarie Group. The consolidated financial statements of MGL, within which the Company is included, can be obtained from the address given in Note 22.

The Company does not have any related party transactions or balances other than those with entities which form part of the Macquarie Group as mentioned above.

Note 15. Directors' remuneration

During the financial year ended 31 March 2019, all Directors were employed by and received all emoluments from other Macquarie Group undertakings. The Directors perform directors' duties for multiple entities in the Macquarie Group, as well as their employment duties within Macquarie Group businesses. Consequently, allocating their employment compensation accurately across all these duties would not be feasible. Accordingly, no separate remuneration has been disclosed.

Note 16. Contingent liabilities and commitments

The Company has no commitments or contingent liabilities which are individually material or a category of commitments or contingent liabilities which are material.

Note 17. Derivative financial instruments

The following tables provide details of the Company's outstanding derivative financial instruments as at 31 March 2019.

	Asset valuation US\$	Liability valuation US\$	2019 Net fair value US\$
Interest rate contracts			
Swaps	793,369	(476,388)	316,981
Total interest rate contracts	793,369	(476,388)	316,981
Foreign exchange contracts			
Forwards	-	(360,688)	(360,688)
Total foreign exchange contracts	-	(360,688)	(360,688)
Commodity contracts			
Forwards	9,729,992	(2,960,555)	6,769,437
Swaps	32,647,875	(46,750,628)	(14,102,753)
Total commodity contracts	42,377,867	(49,711,183)	(7,333,316)
Total derivative contracts outstanding	43,171,236	(50,548,259)	(7,377,023)

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 17. Derivative financial instruments (continued)

The following tables provide details of the Company's outstanding derivative financial instruments as at 31 March 2018.

	Asset	Liability	2018
	valuation	valuation	Net fair value
	US\$	US\$	US\$
Interest rate contracts			
Swaps	1,662,966	-	1,662,966
Total interest rate contracts	1,662,966	-	1,662,966
Foreign exchange contracts			
Forwards	-	(246,645)	(246,645)
Total foreign exchange contracts	-	(246,645)	(246,645)
Commodity contracts			
Forwards	25,818,008	(966,381)	24,851,627
Swaps	1,826,177	(9,478,894)	(7,653,717)
Total commodity contracts	27,643,185	(10,445,275)	17,197,910
Total derivative contracts outstanding	29,306,151	(10,691,920)	18,614,231

Notional amounts on outstanding derivative instruments are: Interest rate swaps US\$89,997,000 (2018: US\$72,324,500), Foreign exchange forwards US\$252,697 (2018: US\$3,916,100), Commodity forwards LBS5,713,179 (2018: LBS6,122,000), Commodity swaps LBS26,727,866 (2018: LBS12,394,299).

Note 18. Financial risk management

Risk management group

Risk is an integral part of the Macquarie Group's businesses. The main risks faced by the Group are strategic, reputation, conduct, credit, equity, asset, liquidity, market, compliance, operational, legal and tax.

Primary responsibility for risk management lies at the business level. Part of the role of all business managers throughout Macquarie is to ensure they manage risk appropriately.

Risk Management Group (RMG) is independent of all other areas of the Macquarie Group. RMG approval is required for all material risk acceptance decisions. RMG independently assesses and accepts all material risks and sets prudential limits, consistent with the Board approved Risk Appetite Statement. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the CEO with a secondary reporting line to the Board Risk Committee.

The risks which the Company are exposed to are managed on a globally consolidated basis for MGL as a whole, including all subsidiaries, in all locations. Macquarie's internal approach to risk ensures that risks in subsidiaries are subject to the same rigour and risk acceptance decisions (i.e. not differentiating where the risk is taken within Macquarie).

18.1 Credit risk

Credit risk is the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequent loss is either the amount of the loan or financial obligation not repaid, or the loss incurred in replicating a trading contract with a new counterparty. Credit risk within the Company is managed on a group basis by the RMG at MGL.

Ratings and reviews

For internal balances, credit rating of each affiliate entity has been defined based on entity classification into bank or non-bank which is broadly aligned to external credit rating agencies. This is assessed and potentially adjusted on an annual basis, whenever required.

The balances disclosed in the credit risk tables below include only those financial assets and off-balance sheet items that are subject to impairment requirements of IFRS 9. Comparative tables as at 31 March 2018 as published in the 2018 annual report do not reflect the adoption of IFRS 9 and hence are not comparable.

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 18. Financial Risk management (continued)

18.1 Credit risk (continued)

Maximum exposure to credit risk

For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet.

Credit risk concentration

The table below details the concentration of credit risk by significant geographical locations and counterparty type of the Company's financial assets and off-balance sheet items subject to impairment requirements of IFRS 9. The geographical location is determined by the domicile and counterparty type.

2019	Reverse repurchase agreements US\$	Amounts owed by group undertakings US\$	Trade Debtors US\$	Derivative Assets US\$	Total US\$
Australia					
Financial institutions	-	-	-	33,441,244	33,441,244
Total Australia	-	-	-	33,441,244	33,441,244
Americas					
Other	-	-	2,848,248	9,729,992	12,578,240
Total Americas	-	-	2,848,248	9,729,992	12,578,240
Europe, Middle East & Africa					
Other	-	68,729,108	-	-	68,729,108
Total Europe, Middle East & Africa	-	68,729,108	-	-	68,729,108
Total gross credit risk	-	68,729,108	2,848,248	43,171,238	114,748,592

All of the above financial assets are of ECL stage I.

Prior year comparative credit risk disclosures

The below credit risk disclosures were included in the 2018 financial statements and do not reflect the adoption of IFRS 9. These tables are accordingly not directly comparable to that provided in terms of IFRS 9.

2018	Reverse repurchase agreements ¹ US\$	Amounts owed by group undertakings US\$	Trade Debtors US\$	Derivative Assets US\$	Total US\$
Australia					
Financial institutions	-	15,281,933	-	3,488,143	18,750,076
Other	-	-	-	114,010	114,010
Total Australia	-	15,281,933	-	3,602,153	18,884,086
Americas					
Other	-	-	6,073,621	23,808,683	29,882,304
Total Americas	-	-	6,073,621	23,808,683	29,882,304
Europe, Middle East & Africa					
Financial institutions	8,153,951	52,060,166	-	69,373	60,283,490
Other	-	-	-	1,825,942	1,825,942
Total Europe, Middle East & Africa	8,153,951	52,060,166	-	1,895,315	62,109,432
Total gross credit risk	8,153,951	67,322,099	6,073,621	29,308,151	110,855,822

¹Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 18. Financial Risk management (continued)

18.1 Credit risk (continued)

Credit quality of financial assets

The table below details the credit quality of the Company's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Company's credit rating system and excludes the benefit of collateral and credit enhancements except as otherwise indicated (refer to Collateral and credit enhancements held).

Credit quality - 2018

	Investment Grade US\$	Below Investment Grade US\$	Default US\$	Total US\$
Reverse repurchase agreements				
Financial institutions	8,153,951	-	-	8,153,951
Amounts owed by Macquarie group undertakings				
Financial institutions	15,261,933	-	-	15,261,933
Other	52,060,166	-	-	52,060,166
Trade debtors				
Other	6,073,621	-	-	6,073,621
Derivative Assets				
Financial Institutions	3,488,143	69,373	-	3,557,516
Other	9,017,244	7,862,793	8,868,598	25,748,635
Total	94,055,058	7,932,166	8,868,598	110,855,822

Collateral and credit enhancements held

Reverse repurchase agreements of US\$8,153,951 held as of 31 March 2018 were collateralised with underlying physical commodities US\$6,225,000.

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance is disclosed in the past due analysis. There are no balances past due by one day or more or individually impaired (2018: US\$nil).

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 18. Financial Risk management (continued)

Note 18.2 Liquidity risk

Liquidity risk is the risk of an entity encountering difficulty in meeting obligations with financial liabilities.

Liquidity risk within the Company is managed on a group basis by Group Treasury with oversight from the Asset and Liability Committee and RMG.

Contractual undiscounted cash flows

The table below summarises the maturity profile of the Company's financial liabilities as at 31 March based on contractual undiscounted repayment obligations and hence would vary from the carrying value as the balance sheet date. Repayments subject to notice are treated as if notice were given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay. Deposits are reported at their contractual maturity. The table does not reflect the behavior expected cash flows indicated by the Company's deposit retention history.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2019	US\$	US\$	US\$	US\$	US\$	US\$
Amount owed to Macquarie group undertakings ¹	248,298	-	-	49,307,001	-	49,555,299
Deposits	4,557,878	-	-	-	-	4,657,878
Derivative liabilities	-	47,111,317	19,580	3,417,362	-	50,548,259
Total undiscounted cash flows	4,806,176	47,111,317	19,580	52,724,363	-	104,661,438

¹Excludes other non-financial liabilities of £468,124 which are included in Note 8 – Creditors: amounts falling due within one year.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2018	US\$	US\$	US\$	US\$	US\$	US\$
Amount owed to Macquarie group undertakings ¹	17,893,033	-	-	65,534,500	-	83,427,533
Deposits	9,085,587	-	-	-	-	9,085,587
Derivative liabilities	-	9,478,893	237,945	975,082	-	10,691,920
Total undiscounted cash flows	26,978,620	9,478,893	237,945	66,509,582	-	103,205,040

¹Excludes other non-financial liabilities of £23,416 which are included in Note 8 – Creditors: amounts falling due within one year.

Note 18.3 Market risk

Market risk is the risk of adverse changes in the value of the Company's trading positions as a result of changes in market conditions. The Company is exposed to the following risks:

- **Price:** The risk of loss due to changes in price of a risk factor (interest rates, foreign exchange, commodities etc.)
- **Volatility:** The risk of loss due to changes in the volatility of a risk factor
- **Correlation:** Risk that the actual correlation between two assets or variables is different from the assumed correlation
- **Illiquid market:** Risk of inability to sell assets or close out positions in thinly-traded markets at close to the last market prices
- **Concentration:** Risk of over concentration of trading exposures in certain markets and products

Market risk of the Company is managed on a globally consolidated basis for Macquarie Group as a whole, including all subsidiaries, in all locations. Macquarie's internal approach to risk (i.e. not differentiating where the risk is taken within Macquarie) ensures that risks in subsidiaries are subject to the same rigour and risk acceptance decisions

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 18. Financial Risk management (continued)

Note 18.3 Market risk (continued)

Interest rate risk

The Company has exposure to non-traded Interest rate risk generated by interest bearing assets and liabilities.

The table below indicates the Company's exposure to movements in interest rates as at 31 March.

	Movement in basis points	2019 Sensitivity of profit before tax US\$	2018 Sensitivity of profit before tax US\$
United States dollar	+50	7,157,561	(471,068)
Pound sterling	+50	(6,425,638)	5,111
Japanese yen	+50	(5)	-
United States dollar	-50	(7,157,561)	471,068
Pound sterling	-50	6,425,638	(5,111)
Japanese yen	-50	5	-

Foreign currency risk

The Company is exposed to foreign currency risk arising from transactions entered into in its normal course of business. Movement in foreign currency exchange rates will result in gains or losses in the profit and loss due to the revaluation of certain balances.

The table below indicates the sensitivity to movements in the United States dollar rate against various foreign currencies at 31 March.

	Movement of +10%	Movement of -10%	Movement of +10%	Movement of 10%
	2019 Sensitivity of profit before tax US\$	2019 Sensitivity of profit before tax US\$	2018 Sensitivity of profit before tax US\$	2018 Sensitivity of profit before tax US\$
Japanese yen	70	(70)	-	-
Australian dollar	(8,085)	8,085	(8,404)	8,404

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 19. Measurement categories of financial instruments

The following table contains information relating to the measurement categories of financial instruments under IFRS 9 of the Company. The descriptions of measurement categories are included in Note 2 - Significant accounting policies. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 20 - Fair value of financial assets and financial liabilities.

The fair value of all financial assets and liabilities carried at amortised cost approximates their carrying value at balance sheet date.

	Financial Instruments			Total US\$
	Carried at fair value			
	HFT US\$	Amortised cost US\$	Non-financial instruments US\$	
As at 31 March 2019				
Assets				
Derivative assets	43,171,236	-	-	43,171,236
Amounts owed by Macquarie group undertakings	-	68,729,108	-	68,729,108
Trade debtors	-	2,848,248	-	2,848,248
Total assets	43,171,236	71,577,356	-	114,748,592
Liabilities				
Derivative liabilities	(50,548,259)	-	-	(50,548,259)
Amount owed to Macquarie group undertakings	-	(49,555,299)	-	(49,555,299)
Taxation	-	-	(468,124)	(468,124)
Deposits	-	(4,557,878)	-	(4,557,878)
Total liabilities	(50,548,259)	(54,113,177)	(468,124)	(105,129,560)

The following table summarises the categories of financial instruments under IAS 39 as at 31 March 2018:

	Financial Instruments			Total US\$
	Carried at fair value			
	HFT US\$	Amortised cost US\$	Non-financial instruments US\$	
As at 31 March 2018				
Assets				
Derivative assets	29,306,151	-	-	29,306,151
Amounts owed by Macquarie group undertakings	-	67,322,099	-	67,322,099
Reverse repurchase agreements	-	8,153,951	-	8,153,951
Trade debtors	-	6,073,621	-	6,073,621
Total assets	29,306,151	81,549,671	-	110,855,822
Liabilities				
Derivative liabilities	(10,691,920)	-	-	(10,691,920)
Amount owed to Macquarie group undertakings	-	(83,427,533)	-	(83,427,533)
Taxation	-	-	(23,416)	(23,416)
Deposits	-	(9,085,587)	-	(9,085,587)
Total liabilities	(10,691,920)	(92,513,120)	(23,416)	(103,228,456)

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Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 20. Fair value of financial assets and liabilities

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- The fair values of variable rate financial instruments, including cash collateral on securities borrowed/cash collateral on securities lent approximated by their carrying amounts. Fair values of all loan assets and debt liabilities carried at amortised cost is determined with reference to changes in credit markets as well as interest rates.
- The fair value of fixed rate loans and debt investments carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower.
- The fair value of balances due from/to related entities are approximate to their carrying amount as the balances are generally short term in nature.

The fair value of all financial assets and liabilities approximates their carrying value at the balance sheet date and are predominantly classified as level 2 in the fair value hierarchy, except for Deposits of US\$4,557,878 (2018: US\$9,085,587) which are classified as level 1.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are measured at fair value:

- derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (for example, listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (for example for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as volatility and correlation.

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 20. Fair value of financial assets and liabilities (continued)

The fair values calculated for financial instruments which are carried on the balance sheet at amortised cost are for disclosure purposes only. The methods and assumptions applied to derive these fair values, as described earlier, can require significant judgement by management and therefore may not necessarily be compared to other financial institutions.

The fair value of all financial assets and liabilities approximates their carrying value at balance sheet date.

The following table below summarises levels of the fair value hierarchy for financial instruments measured at fair value.

2019	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Assets				
Derivative assets	-	793,369	42,377,867	43,171,236
Total assets	-	793,369	42,377,867	43,171,236
Liabilities				
Derivative liabilities	-	(837,076)	(49,711,183)	(50,548,259)
Total liabilities	-	(837,076)	(49,711,183)	(50,548,259)
2018				
	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Assets				
Derivative assets	-	1,662,962	27,643,189	29,306,151
Total assets	-	1,662,962	27,643,189	29,306,151
Liabilities				
Derivative liabilities	-	(246,645)	(10,445,274)	(10,691,920)
Total liabilities	-	(246,645)	(10,445,274)	(10,691,920)

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table presents the changes in Level 3 of the fair value hierarchy for the Company for the year ended 31 March.

	2019 US\$	2018 US\$
Derivative assets and liabilities		
Opening Balance	17,197,915	11,094,099
Purchases	-	(324,926)
Sales	-	(2,513,684)
Settlements	1,602,954	20,924,600
Fair value gains recognised in the profit and loss	(26,034,185)	(11,982,173)
Closing Balance	(7,333,316)	17,197,915
Fair value gains for the financial year included in the profit and loss for assets and liabilities held at the end of the financial year	(22,920,560)	3,952,667

Sensitivity analysis of valuations using unobservable inputs

The Company is not exposed to the fair value fluctuations due to unobservable inputs. All price movements in relation to the derivative assets and liabilities are transferred to other Macquarie Group undertakings, who manage their risk through other hedging strategies. Any reasonably possible change in unobservable inputs would not have a significant impact on the fair-value hence no disclosure of such sensitivity has been made.

Inputs for derivative contracts

The Company's Level 3 assets consists of derivative contracts that derive their value from the movement in the underlying uranium prices. Due to the illiquid nature of the underlying uranium market, these fair values are not readily observable and are derived based on market observations where available and internal pricing methodologies.

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 21. Offsetting financial assets and financial liabilities

The Company reports financial assets and financial liabilities on a net basis on the balance sheet in accordance with criteria described in Note 2(v) "Financial instruments". The following tables provide information on the impact of offsetting that has occurred in the balance sheet, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting in the balance sheet. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Company's financial position in that circumstance is to settle as one arrangement

	Amounts covered by enforceable netting arrangements								
	Subject to offsetting on balance sheet			Related amounts not offset ²		Amounts not subject to enforceable netting arrangements			Balance Sheet total
	Gross amounts	Amounts offset	Net amount presented	Other recognised financial instruments ¹	Cash and other financial collateral	Net amount			
2019	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Amounts owed by Macquarie group undertakings									
Derivative assets	211,908,117	(143,179,009)	68,729,108	-	-	68,729,108	-	-	68,729,108
Total assets	245,349,361	(143,179,009)	102,170,352	(33,441,244)	-	68,729,108	9,729,992	111,900,344	
Amounts owed to Macquarie group undertakings									
Margin deposits	(192,633,799)	143,078,502	(49,555,299)	-	-	(49,555,299)	-	-	(49,555,299)
Derivative liabilities	(47,483,346)	-	(47,483,346)	33,441,244	-	(14,042,103)	(3,064,913)	(50,548,259)	
Total liabilities³	(240,117,145)	143,078,502	(97,038,645)	33,441,244	-	(63,597,402)	(7,622,791)	(104,661,438)	

¹Financial instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

²Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

³This balance excludes other non-financial liabilities of US\$468,124.

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 21. Offsetting financial assets and financial liabilities (continued)

	Amounts covered by enforceable netting arrangements							Balance Sheet total US\$
	Subject to offsetting on balance sheet			Related amounts not offset		Net amount US\$	Amounts not subject to enforceable netting arrangements US\$	
	Gross amounts US\$	Amounts offset US\$	Net amount presented US\$	Other recognised financial instruments US\$	Cash and other financial collateral US\$			
2018								
Amounts owed by Macquarie group undertakings								
Reverse repurchase agreements	90,600,230	(23,278,131)	67,322,099	(65,534,500)	-	1,787,599	-	67,322,099
Trade debtors	-	-	-	-	-	-	6,073,621	6,073,621
Derivative assets	3,488,143	-	3,488,143	(3,488,143)	-	-	25,818,008	29,306,151
Total assets	102,242,324	(23,278,131)	78,964,193	(69,022,643)	(6,225,000)	3,716,550	31,891,829	110,855,822
Amounts owed to Macquarie group undertakings								
Margin deposits	(108,705,664)	23,278,131	(83,427,533)	65,534,500	-	(17,893,033)	-	(83,427,533)
Derivative liabilities	-	-	-	-	-	-	(9,085,587)	(9,085,587)
Derivative liabilities	(9,725,538)	-	(9,725,538)	3,488,143	-	(6,237,395)	(966,382)	(10,691,920)
Total liabilities¹	(116,431,202)	23,278,131	(93,153,071)	69,022,643	-	(24,130,428)	(10,051,969)	(103,205,040)

¹This balance excludes other non-financial liabilities of US\$23,416.

Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in Note 2(vi) "Financial instruments" and are limited to the gross carrying values of the financial instruments. Therefore, when an asset is offset by a liability and the asset carrying value exceeds the liability carrying value, then the net amount presented for the asset will be the difference, and for the liability will be nil.

Amounts subject to enforceable netting arrangements

Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre determined events, such that their potential effect on the Company's financial position in that circumstance is to settle as one arrangement.

'Other recognised financial instruments' discloses other financial instruments recognised on balance sheet and 'Cash and other financial collateral' discloses amounts received or pledged in relation to the gross amounts of assets and liabilities. Both are subject to enforceable netting arrangements but are not offset due to the rights of set off applying only upon default or other predetermined events. This excludes non-financial instrument collateral. The amounts subject to enforceable netting arrangements but not set off on the balance sheet have been limited to the net amount presented on the balance sheet so as not to include effects of over-collateralisation.

Macquarie Physical Commodities UK Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2019

Note 22. Ultimate parent undertaking

At 31 March 2019, the immediate parent undertaking of the Company was Macquarie Commodities Finance (UK) Limited.

The ultimate parent undertaking and controlling party of the Company is MGL. The largest group to consolidate these financial statements is MGL, a company incorporated in Australia. The smallest group to consolidate these financial statements is Macquarie Bank Limited ("MBL"), a company incorporated in Australia. Copies of the consolidated financial statements for MGL and MBL can be obtained from the Company Secretary, Level 6, 50 Martin Place, Sydney, New South Wales, 2000, Australia.

Note 23. Events after the reporting period

There were no material events subsequent to 31 March 2019 that have not been reflected in the financial statements.