

# Nordural Grundartangi ehf.

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Financial Statements

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## 2018

Nordural Grundartangi ehf.

Grundartanga

301 Akranes

Id.no. 570297-2609

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# Nordural Grundartangi ehf.

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## Financial Statements

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# 2018

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# INDEPENDENT AUDITOR'S REPORT

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**To the Board of Directors and the Shareholders of Norðurál Grundartangi ehf.**

## **Opinion**

We have audited the Financial Statements of Norðurál Grundartangi ehf. for the year ended December 31, 2018 which comprise, the Report by the Board of Directors and Managing Director, the Income Statement, the Balance Sheet, the Cash Flow Statement for the year then ended, and the Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of Norðurál Grundartangi ehf. as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance the Icelandic Financial Statement Act.

## **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Norðurál Grundartangi ehf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and Icelandic Institute of State Authorized Public Accountants, Code of Ethics (FLE Code) and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Other information**

The Board of Directors and Managing Director are responsible for the other information. The other information comprises the Report by the Board of Directors and Managing Director, but does not include the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding Report by the Board of Directors and Managing Director as stated below.

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, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. We further confirm to the best of our knowledge that the accompanying Report by the Board of Directors and Managing Director includes all information required by paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006.

## **Responsibilities of the Board of Directors and the Managing Director for the Financial Statements**

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the Financial Statements in accordance with the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the Managing Director determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Board of Directors and the Managing Director are responsible for assessing Norðurál Grundartangi ehf.'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 Board of Directors and the Managing Director either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

# INDEPENDENT AUDITOR'S REPORT

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## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Kópavogur, March 15, 2019.

**Deloitte ehf.**

**Jóhann Geir Harðarson**

State Authorized Public Accountant

# Report by the Board of Directors and Managing Director

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The Financial Statements of Nordural Grundartangi ehf. are prepared in accordance with generally accepted accounting principles in Iceland.

Nordural Grundartangi ehf. operates an aluminum smelter at Grundartangi, Iceland. It is highly dependant on the price of primary aluminum, and on the cost and continuous availability of power, labor, and key raw materials, including alumina and carbon anodes. Labor, taxes, and certain other costs are denominated in Icelandic Krona. These items are all related to the entity's normal course of business. The company is expanding its production capacity and intends to continue those efforts in the coming years.

Nordural Grundartangi ehf. produces high quality aluminum in a responsible, safe and efficient manner. Quality control protocols are subject to regular review in a process of continuous improvement. All staff is encouraged to participate in maintaining and improving the quality of our operations at all levels.

Norðural Grundartangi ehf. production for the year 2018 was 317,389 metric tons, one more year that we manage to increase produciton from previous year. Average number of employee positions in year 2018 were 575 compared to 553 in year 2017.

Approximately 84% of Nordural Grundartangi ehf. workforce is represented by five labor unions, governed by a labor agreement that establishes wages and work rules for covered employees. The current agreement is effective through December 31, 2019. The safety and health of our people is our first priority. Nordural Grundartangi ehf. is the largest workplace in the western part of Iceland and plays a pivotal social role – not only as the principal source of income for thousands of people, but also more generally for the economical, environmental and social well-being of the region as a whole. We take our responsibilities seriously, as well as our commitment to operate well within the framework set by law and regulations.

Norðural Grundartangi ehf. has made a commitment to ethical conduct and lawful business practices. International laws and regulations prohibit corrupt practices and transactions, such as misleading or fraudulent accounting and reporting, and improper gifts or favors. Detailed policy documents establish standards and protocols to ensure compliance with legal and social requirements for the ethical conduct of an honest and reputable company.

Aluminum production inevitably leads to considerable emissions of CO<sub>2</sub>. At Nordural Grundartangi ehf., we work hard to achieve the lowest emissions in the world and Icelandic aluminum is a world leader when it comes to minimizing environmental impacts. The world's lowest CO<sub>2</sub> emissions are achieved with a combination of well-run, good methods and facilities, and electricity generated exclusively from renewable resources. Well trained work force keeps the machinery running smoothly, avoiding voltage peaks and stoppages that lead to unnecessary emissions of undesirable gases. With sustainability, efficiency and care, we produce aluminum with CO<sub>2</sub> levels three times lower than the industry average.

Environmental monitoring entails research and monitoring of 109 environmental factors in and surrounding the area of Hvalfjörður. The purpose is to ensure that the operations of Nordural Grundartangi ehf. are not harmful to the environment. The environmental monitoring is conducted by independent parties and the results have unequivocally demonstrated that Nordural Grundartangi ehf. operations meet and exceed all the criteria stipulated in the operating license and regulations.

Nordural is an ISO 9001 certified company. Environmental and safety systems are certified according to ISO 14001 and ISO 18001 standards. Production processes and environmental and safety standards are under continuous review.

Nordural Grundartangi ehf. is yet to finalise establishment of measurable non-financial performance indicators to monitor how the its operations affect society, community and environment and reporting compliance with its policies concerning non-financial indicators. Nordural Grundartangi ehf. will continue its works to establish such indicators and reporting process in the year 2019.

# Report by the Board of Directors and Managing Director

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The Board of Directors is comprised of 1 female Director and 2 male Directors, which is in accordance with the statutory gender ratio of Boards of Directors of Public Limited Companies in Iceland, with more than 50 employees.

Nordural Grundartangi's profit for the year ended December 31, 2018 amounted to USD 4,530,360. According to the Balance Sheet the Company's assets amount to USD 616,810,700 the year's end book value of equity is USD 408,644,700 and the Company's equity ratio is 66%. Average number of employee positions in year 2018 were 575.

The sole shareholder of Nordural Grundartangi ehf. is Nordural ehf. like it was at the beginning of the year.

The Board of Directors recommends that dividend will not be paid to the shareholder for the operational year 2018. As regards changes in the equity of the Entity, the board refers to the Notes attached to the Financial Statements.

It is the opinion of the Board of Directors and the Managing Director of Nordural Grundartangi ehf. that these Financial Statements present all the information necessary to show the financial position of the Company as of December 31, 2018 and the operating results and cash flows for the year then ended.

The Board of Directors and Managing Director of Nordural Grundartangi ehf. hereby confirm the Financial Statements for the year 2018 with their signatures.

Reykjavik, March 15, 2019

## **Board of Directors**

Jessy Gary

Ragnar Guðmundsson

Michelle Harrison

## **Managing Director**

Ragnar Guðmundsson

# Income Statement 2018

		2018	2017
Operating revenue .....		752,297,022	658,069,835
Production expenses .....		(711,681,886)	(552,993,514)
Depreciation and amortization .....	8	(39,793,489)	(40,536,450)
<b>Gross profit</b>		<u>821,647</u>	<u>64,539,871</u>
Selling and administrative expenses .....		(2,608,809)	(2,046,630)
<b>Operating (loss) income</b>		<u>(1,787,162)</u>	<u>62,493,241</u>
Share of (loss) profit of subsidiary .....	11	(8,086)	64,164
Interest income .....	5	902,647	826,913
Net gain on forward and derivative contracts .....	16	3,638,464	524,070
Finance costs .....	6	(9,806,269)	(13,548,677)
Exchange rate gain (loss) .....		12,715,088	(14,041,109)
<b>Profit before taxes</b>		<u>5,654,680</u>	<u>36,318,602</u>
Income tax .....	7	(1,124,322)	(7,270,297)
<b>Profit for the year</b>		<u><u>4,530,360</u></u>	<u><u>29,048,305</u></u>

# Balance Sheet at 31. December 2018

<b>Assets</b>		<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Fixed assets</b>			
Property, plant and equipment .....	8	461,592,387	490,718,614
Derivative financial assets .....	16	4,669,173	1,302,541
Investment in subsidiary .....	11	390,799	398,886
		<u>466,652,359</u>	<u>492,420,041</u>
<b>Current assets</b>			
Inventories .....	9	110,546,692	96,133,412
Trade receivables .....	10	10,928,335	11,920
Other receivables .....	10	3,832,734	5,134,630
Cash and cash equivalents .....	10	24,850,579	79,998,169
		<u>150,158,340</u>	<u>181,278,131</u>
<b>Assets</b>		<u><u>616,810,700</u></u>	<u><u>673,698,172</u></u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
	12		
Share capital .....		146,988,000	146,988,000
Share premium .....		117,963,936	117,963,936
Other reserves .....		40,898,999	40,907,085
Retained earnings .....		100,803,721	96,265,275
Accumulated other comprehensive income .....		1,990,044	2,138,870
Total equity		<u>408,644,700</u>	<u>404,263,166</u>
<b>Long-term liabilities</b>			
Loans due to related party .....	13	69,722,561	116,880,527
Derivative financial liabilities .....	16	506,639	778,470
Deferred tax liabilities .....	14	79,012,874	78,236,428
		<u>149,242,074</u>	<u>195,895,425</u>
<b>Current liabilities</b>			
Trade and other payables .....	15	40,366,391	42,917,921
Next year payment of long time liabilities .....	13	6,346,734	7,069,967
Current tax liabilities .....	7,14	252,947	12,109,079
Other current liabilities .....	15	11,957,854	11,442,613
		<u>58,923,926</u>	<u>73,539,580</u>
Liabilities		<u>208,166,000</u>	<u>269,435,005</u>
<b>Total equity and liabilities</b>		<u><u>616,810,700</u></u>	<u><u>673,698,172</u></u>

# Statement of Cash Flows 2018

	Notes	2018	2017
<b>Operating activities</b>			
Profit for the year .....		4,530,360	29,048,305
Adjustments to reconcile profit for the year to net cash provided by operating activities			
Depreciation and amortization .....	8	39,793,489	40,536,450
Income tax expense .....	7	1,124,322	7,270,297
Share of loss (profit) of subsidiary .....	11	8,086	(64,164)
Net finance cost .....		(3,811,466)	26,762,873
Net gain on forward and derivative contracts .....		(3,638,464)	(524,070)
Other changes .....		382,484	(1,029,781)
		<u>38,388,813</u>	<u>101,999,910</u>
Changes in:			
Inventories, increase .....		(14,413,280)	(21,607,240)
Receivables, decrease .....		763,512	969,231
Short term liabilities, (decrease) increase .....		(2,744,441)	14,991,898
Payable net to related parties, decrease .....		(9,669,879)	(372,098)
		<u>(16,963,076)</u>	<u>(6,918,209)</u>
<b>Cash provided by operating activities</b>		<u>12,324,726</u>	<u>95,981,701</u>
Interest received .....			
		863,236	812,444
Interest paid .....			
		(9,276,333)	(11,633,243)
Income tax paid .....			
		(10,526,408)	(5,630,033)
<b>Net cash (to) provided by operating activities</b>		<u>(6,614,779)</u>	<u>79,530,869</u>
<b>Investing activities</b>			
Investment in fixed assets .....	8	(10,991,307)	(11,776,492)
Proceeds from sale of fixed assets .....	8	138,012	68,298
<b>Cash used in investing activities</b>		<u>(10,853,295)</u>	<u>(11,708,194)</u>
<b>Financing activities</b>			
Related parties, payments .....		(37,679,517)	(44,717,883)
<b>Cash used in financing activities</b>		<u>(37,679,517)</u>	<u>(44,717,883)</u>
Net (decrease) increase in cash and cash equivalents .....			
		(55,147,590)	23,104,793
Cash and cash equivalents at the beginning of the year .....			
		79,998,169	56,893,376
Cash and cash equivalents at the end of the year .....			
		<u>24,850,579</u>	<u>79,998,169</u>

# Notes

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## 1. General information

Nordural Grundartangi ehf. ("Company" or "Nordural Grundartangi") is owned by Nordural ehf. The Company operates an aluminum smelter at Grundartangi, Iceland. Nordural ehf is ultimately owned by Century Aluminum Company, a U.S. based holding company. Financial information for Century Aluminum Company are published on its company website.

The Company has an Operating license for the production of up to 350,000 MTPY of aluminum. This license was issued by the National Planning Agency in December 2015. The license expires in December 2031.

The smelter's name plate production capacity is 260,000 metric tons per year ("MTPY"). Production in 2018 was 317,386 MT of hot metal (2017: 317,179 MT), 321,206 MT of casted metal (2017: 319,607 MT).

## 2. Accounting Policies

### Basis of preparation

The Financial Statements of Nordural Grundartangi for the year 2018 are prepared according to generally accepted accounting principles in Iceland. Cost method is used in the Financial Statements and it is prepared according to the same accounting principles as the previous year. The Financial Statements are prepared in United States dollars, which is the Company's functional currency.

The principal accounting policies adopted are set out below.

### Estimates and decisions

For the Annual Report, the Management, in accordance with laws on Financial Statements, needs to make decisions, estimates and draw conclusions which affect assets and liabilities at the reporting date, information in the notes and Income Statement. All conclusions and estimates are based on knowledge and experience and other relevant factors. Those factors make up the basis that can not be ascertained by any other means.

### Risk management

As a global producer of primary aluminum, our operating results and cash flows from operations are subject to risk of fluctuations in the market prices of primary aluminum, raw materials and power. We may from time to time enter into financial contracts to manage our exposure to such risk. We value our derivative and hedging instruments using quoted market prices and other significant unobservable inputs. We recognize changes in fair value and settlements of derivative instruments in net gain (loss) on forward and derivative contracts in the Income Statement of operations as they occur.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in profit or loss. Profit or loss is moved from Equity to the Income Statement in the same period(s) as the probable transactions affect the Income Statement.

### Revenue recognition

Revenues from production are recognized when earned as required by generally accepted accounting principles. Revenues are recognized when title and ownership of the products passes to customers in accordance with contract terms. Interest income is accrued over time, by reference to the principal amount and at the interest rate applicable.

# Notes

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## 2. Accounting Policies (continued)

### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising from currency fluctuations are included in net profit or loss for the period.

### Taxation

Income tax is calculated and recognised in the Financial Statements. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's tax rate in 2018 was 20%.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax basis used for calculation of taxable profit, and is accounted for using the balance sheet liability method. The difference is due to different assumptions in calculation of income tax.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

### Property, plant and equipment

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured in a reliable manner. Property, plant and equipment which qualifies for recognition as an asset is initially measured at cost. The cost of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

The depreciable amount of the asset is allocated on a fixed annual percentage of the historical cost over its useful life, less residual value.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses on cash generating units reduces first goodwill, and after that to reduce other assets. Impairment losses are recognised as an expense immediately.

# Notes

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## 2. Accounting Policies (continued)

### Impairment (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment loss on goodwill is not reversed.

### Inventories

Inventories are stated at the lower of cost or net realisable value, after taking obsolete and defective goods into consideration. Cost comprises of direct materials and, where applicable, direct labor costs and those overhead expenses that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

### Trade receivables

Accounts receivable are valued at nominal value. Accounts receivable in currencies other than USD have been recorded at the exchange rate prevailing at the balance sheet date.

### Loans due to related parties and borrowing costs

Loans due to related parties are initially recognised at fair value plus all related transaction costs. After initial recognition loans due to related parties are recognised at amortised cost using the effective interest method.

### Trade payables

Trade payables are valued at nominal value and accounts payable in other currencies have been recorded at the exchange rates prevailing at the balance sheet date.

### Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation.

## 3. Salaries and other employee expenses

Salaries and salary-related expenses paid by the Company are specified as follows:

	2018	2017
Salaries .....	51,280,228	48,189,295
Pension fund .....	7,590,914	6,646,074
Salary-related expenses .....	5,130,997	4,986,938
Other employee expenses .....	710,823	706,449
	<u>64,712,962</u>	<u>60,528,755</u>
Average number of positions .....	575	553

Information about management salaries is included in the Notes to the Financial Statements of Nordural ehf.

## Notes

### 4. Fees to Auditors

	2018	2017
Deloitte - audit.....	362,823	335,186
PWC - other services.....	451,197	11,350
KPMG - other services.....	90,917	53,055
	<u>904,937</u>	<u>399,591</u>

### 5. Interest income

	2018	2017
Interest income.....	902,647	826,913
	<u>902,647</u>	<u>826,913</u>

### 6. Finance costs

	2018	2017
Interest to related parties .....	9,571,221	13,222,883
Other finance costs.....	235,047	325,794
	<u>9,806,268</u>	<u>13,548,677</u>

### 7. Income tax

	2018	2017
Current tax liabilities .....	252,947	12,109,079
Deferred tax .....	871,375	(4,838,782)
	<u>1,124,322</u>	<u>7,270,297</u>

### 8. Property, plant and equipment

	Real estate and related rights	Machinery & equipment	Construction in progress	Total
<b>Cost or valuation</b>				
At beginning of the year.....	270,126,446	732,359,678	13,804,460	1,016,290,584
Reclassified.....	3,651,388	12,961,430	(16,612,818)	0
Additions.....	0	0	10,991,307	10,991,307
Disposals.....	0	(5,365,860)	0	(5,365,860)
At end of the year.....	<u>273,777,834</u>	<u>739,955,247</u>	<u>8,182,949</u>	<u>1,021,916,031</u>
<b>Accumulated depreciation</b>				
At beginning of the year.....	96,863,582	428,708,389	0	525,571,971
Charge for the year.....	7,774,789	32,204,733	0	39,979,522
Disposals.....	0	(5,227,848)	0	(5,227,848)
At end of the year.....	<u>104,638,371</u>	<u>455,685,274</u>	<u>0</u>	<u>560,323,645</u>
<b>Carrying Amount</b>				
Book value at beginning of the year.....	173,262,864	303,651,289	13,804,460	490,718,614
Book value at end of the year.....	<u>169,139,463</u>	<u>284,269,973</u>	<u>8,182,949</u>	<u>461,592,387</u>
<b>Depreciation and amortization:</b>				
			31.12.2018	31.12.2017
Depreciation of property, plant and equipment .....			39,979,522	40,722,482
Amortization of gain on forward contracts .....			(186,032)	(186,032)
			<u>39,793,489</u>	<u>40,536,450</u>

## Notes

### 9. Inventories

	31.12.2018	31.12.2017
Aluminum finished goods .....	11,552,764	11,581,508
Aluminum in pots .....	13,514,363	14,450,272
Anodes .....	13,930,471	9,670,443
Alumina .....	35,558,517	33,466,410
Cathode blocks .....	5,171,359	1,156,587
Other materials .....	11,273,895	7,417,305
Operational supplies .....	19,545,322	18,390,887
	<u>110,546,692</u>	<u>96,133,412</u>

### 10. Other financial assets

<b>Trade receivables</b>	31.12.2018	31.12.2017
Trade receivables .....	6,129	66
Trade receivables from related party .....	10,922,206	11,854
	<u>10,928,335</u>	<u>11,920</u>

<b>Other receivables</b>	31.12.2018	31.12.2017
Value added tax .....	3,227,191	3,802,467
Prepaid expenses .....	336,483	416,815
Capital income tax .....	27,625	19,105
Due from related party .....	799	533,120
Other receivables .....	240,636	363,123
	<u>3,832,734</u>	<u>5,134,630</u>

#### **Cash and cash equivalents**

The Company's cash and cash equivalent consist of bank balances.

	31.12.2018	31.12.2017
Bank balances in USD .....	23,549,669	78,678,286
Bank balances in other currencies .....	1,300,910	1,319,883
	<u>24,850,579</u>	<u>79,998,169</u>

### 11. Investments in subsidiaries

	Proportion of ownership	Book value 31.12.2018	Profit (loss)	
			2018	2017
<b>Shares in subsidiaries</b>				
Klafí ehf, Grundartanga, Transport Company .....	50.00%	390,799	(8,086)	64,164
Balance at January 1 .....			398,886	334,722
(Loss) profit for the year .....			(8,086)	64,164
At December 31 .....			<u>390,799</u>	<u>398,886</u>

## Notes

### 12. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at year-end .....	163,320,000	100.0%	163,320,000
Treasury stock at year-end .....	(16,332,000)	(10.0%)	(16,332,000)
	<u>146,988,000</u>	<u>90.0%</u>	<u>146,988,000</u>

Each share carries one vote.

	Share capital	Share premium	Other reserves	Retained earnings	Accumulated OCI
Equity 1.1.2017 .....	146,988,000	117,963,936	40,842,920	67,281,134	2,287,698
Currency options, net of tax .....					(148,827)
Legal reserve for the share of earnings of affiliates .....			64,164	(64,164)	
Loss for the year .....				29,048,305	
Equity 1.1.2018 .....	146,988,000	117,963,936	40,907,085	96,265,275	2,138,870
Currency options, net of tax .....					(148,827)
Legal reserve for the share of earnings of affiliates .....			(8,086)	8,086	
Profit for the year .....				4,530,360	
Equity 31.12.2018 .....	<u>146,988,000</u>	<u>117,963,936</u>	<u>40,898,999</u>	<u>100,803,721</u>	<u>1,990,044</u>

Other reserves consist of Statutory reserves 40,830,000 (2017: 40,830,000) and Legal reserves for the share of earnings of affiliates 68,999 (2017: 77,084) which cannot be paid out as dividend to shareholders. According to the Icelandic Companies Act, 25% of nominal value share capital must be held in as Statutory reserves.

Legal reserves for the share of earnings of affiliates is required by Icelandic law. The amount of the legal reserve for the share of earnings of affiliates is reduced by dividends received from those companies.

Accumulated other comprehensive income comprise of a closed hedging activity that is being realized according to the lifetime of the underlying hedged asset.

### 13. Loans due from related party

	31.12.2018	31.12.2017
Loan from parent company. Fixed interest rate is 7.85%. The loan is in Icelandic kronas. ....	24,398,161	59,297,720
Loan from parent company. Fixed interest rate is 10.00%. The loan is in Icelandic kronas. ....	19,124,826	28,397,700
Loan from parent company. Fixed interest rate is 10.00%. The loan is in Icelandic kronas. ....	26,199,574	29,185,108
	<u>69,722,561</u>	<u>116,880,528</u>

## Notes

### 13. Loans due from related party (continued)

Loans due to parent company in the amount of USD 24,398,161 are due upon demand by written notice. Loan due to parent company in the amount of USD 19,124,826 is due in five even payments and the first payment was paid in year 2018 and the last payment is due in year 2022. Payment in year 2019, USD 6,346,734 has been entered as current liabilities. Loan due to parent company in the amount of USD 26,199,575 is due in five even payments and the first payment, USD is due in year 2020 and the last payment is due in year 2024. Interest payment is due each year.

### 14. Deferred tax liabilities

The changes in Deferred tax liabilities are as follows:

	2018	2017
At January 1, .....	78,236,428	83,061,500
Calculated tax for the year .....	1,124,322	7,270,297
Deferred tax due to currency options .....	(37,207)	(37,207)
Exchange rate difference .....	(57,723)	81,147
Income tax payable for next year .....	(252,947)	(12,109,079)
Other differences .....	0	(30,230)
At December 31, .....	<u>79,012,873</u>	<u>78,236,428</u>

The following are the major deferred tax liabilities recognised:

	31.12.2018	31.12.2017
Property, plant and equipment .....	76,231,042	80,929,247
Other items .....	2,781,831	(2,692,819)
	<u>79,012,873</u>	<u>78,236,428</u>

### 15. Other financial liabilities

<b>Trade and other payables</b>	31.12.2018	31.12.2017
Functional currency .....	19,327,638	24,103,138
Other currencies .....	5,423,689	4,958,436
Accruals .....	15,615,064	13,856,347
	<u>40,366,391</u>	<u>42,917,921</u>
<b>Other current liabilities</b>	31.12.2018	31.12.2017
Liabilities to affiliated companies .....	3,908,583	3,200,431
Salaries and related expenses payable .....	8,049,271	8,242,183
	<u>11,957,854</u>	<u>11,442,613</u>

# Notes

## 16. Derivatives

At December 31, 2018, we had an open position of 3,090 tonnes related to LME forward financial sales contracts to fix the forward LME price (the "Forward Financial Sales Contracts"). These Forward Financial Sales Contracts are expected to settle between November 1, 2019 and December 31, 2020. We have also entered into financial contracts to fix the forward price and EUR exchange rate to dollar of approximately 4% of Grundartangi's total power requirements for the period November 1, 2019 through December 31, 2020 (the "power price swaps"). The power price swaps are not designated as cash flow hedges. At December 31, 2018 we had an open position of 256,200 MWh related to the power price swaps.

At December 31, 2018, we had a derivative asset and liabilities of \$4,669,173 (2017: \$1,302,541) and \$506,639 (2017: \$778,470) respectively in the balance sheets. In 2018, we recognized a net gain of \$3,638,465 (2017: \$524,070) related to our derivative instruments, in the income statement.

## 17. Related parties

Related parties are those parties which have considerable influence over the Company, directly or indirectly, including parent company, owners or their families, large investors, key employees and their families and parties that are controlled or dependent on the Company, i.e. affiliates and joint ventures. Business with related parties has been done on a similar basis as business with unrelated parties.

Related parties transactions in the year 2018:	Purchases of	Sales of	Assets	Liabilities
	goods/services	goods/services		
Norðurál ehf., parent company .....	6,088,911	0	0	77,724,076
Century Aluminum Anodes BV .....	109,727,487	13,768,975	1,285,346	9,494,989
Century Aluminum Company, ultimate parent .....	3,210,189	0	0	2,253,003
Glencore, affiliated company .....	238,199,656	750,919,022	6,100,215	5,994,509
Baise Haohai, affiliated company .....	23,973,541	0	0	2,113,398
Klafí ehf., subsidiary .....	1,603,238	0	0	0
	<u>382,803,022</u>	<u>764,687,997</u>	<u>7,385,561</u>	<u>97,579,975</u>

  

Related parties transactions in the year 2017:	Purchases of	Sales of	Assets	Liabilities
	goods/services	goods/services		
Norðurál ehf., parent company .....	5,819,302	0	0	119,401,901
Century Aluminum Anodes BV .....	79,293,907	7,122,941	533,120	6,112,031
Century Aluminum Company, ultimate parent .....	2,911,860	0	0	2,484,906
Glencore, affiliated company .....	222,751,142	657,940,503	11,854	15,985,070
Baise Haohai, affiliated company .....	15,762,903	0	0	2,178,688
Klafí ehf., subsidiary .....	1,493,934	0	0	0
	<u>328,033,048</u>	<u>665,063,444</u>	<u>544,974</u>	<u>146,162,595</u>

## 18. Insurance

Nordural Grundartangi has purchased commercial property and business interruption insurance intended to compensate for temporary breakdown of operations. The property insurance amount is USD 500 million.

# Notes

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## 19. New Accounting Standards and implementation

Under the current IS GAAP, the Company will be required to apply the guidance of IFRS 16 Leases from January 1, 2019. Under IFRS 16, distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and replaced by a model where the right-of-use asset and a corresponding liability have to be recognized for all leases by the lessees. The nature of recognised expenses related to operating leases will change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease.

Based on current estimate, it is expected that this change will have the following effect on the balance sheet as of January 1, 2019: Lease liability in the amount of USD 0.7m and right-of-use assets in the amount of USD 0.7m.

## 20. Commitments and Contingencies

### Power contracts

Nordural Grundartangi has contracts with Landsvirkjun for supply of electricity up to 1622 GigaWatt hours ("GWH") on a yearly basis, of which 1379 GWH is under a "take or pay" obligation. The contracts are due to expire in 2023 and 2029.

Nordural Grundartangi has contracts with Orkuveita Reykjavíkur and HS Orka for supply of electricity up to 2558 GWH on yearly basis, of which 2173 GWH is under a "take or pay" obligation. The contracts are due to expire in 2026 to 2028 (subject to extension). Nordural Grundartangi has a contract with Orkuveita Reykjavíkur for supply of electricity up to 416 GWH on a yearly basis, of which 354 GWH is under a "take or pay" obligation. The contracts are due to expire in 2036 (subject to extension).

### Sale and Raw Material Contracts

Nordural Grundartangi has a contract with Glencore for aluminum sales, extended in 2018, to be delivered through the years 2018 to 2019. Under this contract Nordural Grundartangi receives price based on the LME primary aluminum plus an applicable premium.

Nordural Grundartangi has a contract with Glencore for alumina purchases required for its aluminum production, extended in 2018 for the years 2018 to 2019.

Nordural Grundartangi has a contract for the supply of anodes of 45,000 MTPY with Baise Hao Hai in China. The term of this contract is through December 31, 2020 (subject to extension).

Nordural Grundartangi has a contract for the supply of anodes with Century Aluminum Vlissingen B.V. The contract is effective through 2021 and can be extended. During the term of the agreement, Century Aluminum Vlissingen B.V. shall supply to Nordural the annual quantity of anodes in accordance with the written production schedule agreed to by the parties.

### Other

Nordural Grundartangi ehf., entered into Guaranty, dated as of March 21, 2014 in favor of Pension Benefit Corporation, a United states government coporation, as part of settlement agreement regarding an alleged "cessation of operations" at parent company, Ravenswood facility. The remaining contributions under this agreement in end of 2018 are approximately USD 9.6 million.

Nordural Grundartangi ehf., as borrower, and Landsbankinn hf., as lender, entered into a three-year USD 50 million committed revolving credit facility agreement which expires November 2020. The company's inventory and accounts receivable are pledged as a collateral to the financial institution. As of December 31, 2018, there were no outstanding borrowings under this credit facility.

The Company, in the regular course of business, is involved in investigations and claims by various regulatory agencies none of which the Company believes will have material effect on financial results.