

Deloitte.

TATA CHEMICALS MAGADI LIMITED

**REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 MARCH 2017**

TATA CHEMICALS MAGADI LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

CONTENTS	PAGES
Corporate information	2
Report of the management	3
Statement of management's responsibilities	4
Independent auditor's report	5 - 7
Financial statements:	
Statement of profit or loss and other comprehensive income	8
Statement of financial position	9
Statement of changes in equity	10
Statement of cash flows	11
Notes to the financial statements	12 - 45

TATA CHEMICALS MAGADI LIMITED

CORPORATE INFORMATION

MANAGEMENT	Jackson Muchira Mbui Mukundan Ramakrishnan Titus Tukero Naikuni John Mulhall Dr. Yashwant Thorat Zarir Langrana Dr. Stephen Moiko	Managing Director
COMPANY SECRETARY	Livingstone Associates Certified Public Secretaries (Kenya) P O Box 30029, 00100 Nairobi	
HEADQUARTERS	Magadi, Kenya	
REGISTERED OFFICE	Mond House, Winnington Northwich Cheshire, CW8 4DT England	
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 40092, 00100 Nairobi, Kenya	
BANKERS	Barclays Bank of Kenya Limited Barclays Plaza Branch Nairobi, Kenya Standard Chartered Bank of Kenya Limited Kenyatta Avenue Branch Nairobi, Kenya Co-operative Bank of Kenya Limited Enterprise Road Branch Nairobi, Kenya CfC Stanbic Bank Limited Kenyatta Avenue Branch Nairobi, Kenya Bank of India Kenyatta Avenue Branch Nairobi, Kenya	
LEGAL ADVISORS	Kaplan & Stratton Williamson House P O Box 40111 - 00100 Nairobi, Kenya	

TATA CHEMICALS MAGADI LIMITED

REPORT OF THE MANAGEMENT

Management present their annual report together with the audited financial statements of Tata Chemicals Magadi Limited (the "company") for the year ended 31 March 2017, which disclose the state of affairs of the company.

INCORPORATION

The company is incorporated in the United Kingdom (UK) under the UK Companies Act. However, all operations are carried out in Kenya. The company is registered in Kenya for taxation purposes under the Income Tax Act.

These financials are primarily prepared for the purpose of filing the company's tax returns with the Kenya Revenue Authority (KRA).

ACTIVITIES

The principal activity of the company is the production and sale of soda ash (sodium carbonate) and salt.

RESULTS FOR THE YEAR	2017 Sh 'm	2016 Sh'm
(Loss)/Profit before taxation	(30)	165
Taxation	-	-
	<hr/>	<hr/>
(Loss)/Profit for the year	<u>(30)</u>	<u>165</u>

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office.

Managing Director


2017
7/7/2017

TATA CHEMICALS MAGADI LIMITED

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Management is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. Management are to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. Management are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and error.

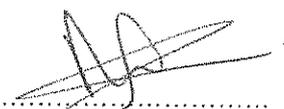
Management accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards. They also accept responsibility for:

- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and
- (iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern, further disclosures on going concern have been made in note 3 to the financials.

Management acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 7/2017..... 2017 and signed on its behalf by:


.....
Managing Director


.....
Director of Finance

INDEPENDENT AUDITORS' REPORT TO THE MANAGEMENT OF TATA CHEMICALS MAGADI LIMITED

Report on financial statements

Opinion

We have audited the accompanying financial statement of Tata Chemicals Magadi Limited, set out on pages 8 to 45, which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows 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 state of financial affairs of the Company as at 31 March 2017 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Emphasis of matter

Without qualifying our opinion, we draw your attention to note 3 to the financial statements which gives disclosures on the going concern basis of the financial statements.

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 Company financial statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information, which comprises the report of the management. The other information 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.

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 on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE MANAGEMENT OF TATA CHEMICALS MAGADI LIMITED (Continued)

Responsibilities of the management for the Financial Statements

The management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal controls as management determine are 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, management is responsible for assessing the company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISA's 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 skepticism 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, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the Directors' 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. Refer to the going concern disclosure included under note 3 of the financial statements.
- 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.

INDEPENDENT AUDITORS' REPORT
TO THE MANAGEMENT OF TATA CHEMICALS MAGADI LIMITED (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain responsible for our audit opinion.

We communicate with those charged with governance 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.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Anne Muraya – P/No: 1697.

Belsitte & Louche

Certified Public Accountants (Kenya)

Nairobi, Kenya

7 July 2017

TATA CHEMICALS MAGADI LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 Sh 'm	2016 Sh 'm
SALES	6	6,089	7,475
COST OF SALES		(2,415)	(2,386)
GROSS PROFIT		3,674	5,089
DISTRIBUTION COSTS		(2,241)	(2,452)
ADMINISTRATIVE EXPENSES		(1,214)	(1,053)
FOREIGN EXCHANGE LOSS		(178)	(1,020)
FINANCE COSTS	7	(9)	(386)
HEDGE INEFFECTIVENESS	8	(62)	(13)
(LOSS)/PROFIT BEFORE TAXATION	9	(30)	165
TAXATION	11	-	-
(LOSS)/PROFIT FOR THE YEAR		(30)	165
OTHER COMPREHENSIVE INCOME			
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO GAIN/(LOSS)			
NET FAIR VALUE GAIN/(LOSS) ON HEDGING INSTRUMENTS ENTERED INTO FOR CASH FLOW HEDGES	8	68	(65)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		38	100

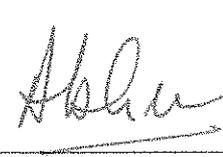
TATA CHEMICALS MAGADI LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	Note	2017 Sh 'm	2016 Sh 'm
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,682	1,587
Deferred taxation asset	15	731	731
		<u>2,413</u>	<u>2,318</u>
Current assets			
Inventory	16	935	880
Trade and other receivables	17	1,470	1,779
Derivative assets	18	3	-
Cash and bank balances	24(b)	430	249
		<u>2,838</u>	<u>2,908</u>
TOTAL ASSETS		<u><u>5,251</u></u>	<u><u>5,226</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	134	134
Cashflow hedging reserves		3	(65)
Accumulated deficit		(7,809)	(7,779)
		<u>(7,672)</u>	<u>(7,710)</u>
Shareholders deficit			
Non-current liabilities			
Borrowings	20	6,061	5,978
Preference shares	21	4,368	4,298
		<u>10,429</u>	<u>10,276</u>
Current liabilities			
Trade and other payables	22	2,105	2,160
Borrowings	20	206	101
Derivative liabilities	18	76	292
Taxation payable	11	107	107
		<u>2,494</u>	<u>2,660</u>
TOTAL EQUITY AND LIABILITIES		<u><u>5,251</u></u>	<u><u>5,226</u></u>

The financial statements on pages 8 to 45 were approved and authorised for issue by management on 7th July 2017 and were signed by:



Managing Director



Director of Finance

7/7/2017

TATA CHEMICALS MAGADI LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017

	Share capital Sh 'm	Cashflow hedging Reserves Sh 'm	Accumulated deficit Sh 'm	Total Sh 'm
At 1 April 2015	134		(7,944)	(7,810)
Profit for the year	-	-	165	165
Other comprehensive loss	-	(65)	-	(65)
	<u>134</u>	<u>(65)</u>	<u>(7,779)</u>	<u>(7,710)</u>
At 31 March 2016	134	(65)	(7,779)	(7,710)
	<u>134</u>	<u>(65)</u>	<u>(7,779)</u>	<u>(7,710)</u>
At 1 April 2016	134	(65)	(7,779)	(7,710)
Loss for the year	-	-	(30)	(30)
Other comprehensive income	-	68	-	68
	<u>134</u>	<u>3</u>	<u>(7,809)</u>	<u>(7,672)</u>
At 31 March 2017	134	3	(7,809)	(7,672)
	<u>134</u>	<u>3</u>	<u>(7,809)</u>	<u>(7,672)</u>

TATA CHEMICALS MAGADI LIMITED
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 31 MARCH 2017

	Note	31 March 2017 Sh 'm	31 March 2016 Sh 'm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operating activities	24(a)	765	2,040
Interest paid		(222)	(464)
Net cash generated from operating activities		543	1,576
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment	12	(465)	(310)
Proceeds on disposal of Equipment		-	2
Net cash used in investing activities		(465)	(308)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings received	20	103	-
Repayment of borrowings	20	-	(407)
Net cash generated from/(used in) financing activities		103	(407)
Increase in cash and cash equivalents		185	861
Cash and cash equivalents at the beginning of the year		249	(612)
Cash and cash equivalents at the end of the year	24(b)	430	249

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance and comply with International Financial Reporting Standards. The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous years and are set out below:

Application of new and revised International Financial Reporting Standards (IFRSs)

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 March 2017*

The following new and revised standards and interpretations were effective in the current year and had no material impact on the amounts reported in these financial statements.

IAS 1 Disclosure Initiative

The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Company, and should be separated into the share of items that, in accordance with other IFRSs:

- (i) will not be reclassified subsequently to profit or loss; and
- (ii) (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 March 2017 (Continued)

Annual Improvements to The Annual Improvements to IFRSs 2012-2014 Cycle include a number of IFRSs 2012-2014 Cycle amendments to various IFRSs, which are summarised below:

IAS 1 Disclosure Initiative (Continued)	<ul style="list-style-type: none"> • IFRS 5 - The amendments introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for- distribution accounting is discontinued. • IFRS 7 - The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets. • IAS 19 - The amendments clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.
---	--

The application of these amendments has had no effect on the Company's financial statements.

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 March 2017

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9 Financial Instruments	1 January 2018, with earlier application permitted
IFRS 15 Revenue from contracts with customers	1 January 2018, with earlier application permitted
IFRS 16 Leases	1 January 2019, with earlier application permitted
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018, with earlier application permitted
Amendments to IAS 7	1 January 2017, with earlier application permitted
Amendments to IAS 12	1 January 2017, with earlier application permitted

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2017 and future annual periods*

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

- a) impairment requirements for financial assets and
- b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

NOTES TO THE FINANCIAL STATEMENTS

I ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2017 and future annual periods (Continued)*

IFRS 9 Financial Instruments

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the company's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that exist at that date, the directors of the Company have performed a preliminary assessment of the impact of IFRS 9 to the Company's financial statements as follows:

Classification and measurement

- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

Financial assets measured at amortised cost, listed redeemable notes that will be carried at FVTOCI under IFRS 9, finance lease receivables, amounts due from customer under construction contracts, and financial guarantee contracts will be subject to the impairment provisions of IFRS 9.

The company expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables, as required or permitted by IFRS 15. The company does not hold any listed redeemable notes, finance lease receivables, amounts due from customer under construction contracts or financial guarantee contracts. In general, the directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the financial assets measured at amortised cost and are currently assessing the potential impact.

Hedge accounting

The new hedge accounting requirements will align more closely with the company's risk management policies, with generally more qualifying hedging instruments and hedged items.

It should be noted that this assessment was made based on an analysis of the company's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of IFRS 9, which is expected to be 1 January 2018 as the company does not intend to early apply the standard, the assessment of the potential impact is subject to change.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2017 and future annual periods (Continued)*

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. Revenue recognition by the company is not complex and does not substantially involve contracts with customers. It is therefore expected that the application of IFRS 15 will not have a material impact on the financial statements of the company.

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Directors of the company do not anticipate that the application of IFRS 16 in the future will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

Furthermore, extensive disclosures are required by IFRS 16.

The directors are still in the process of assessing the full impact of the application of IFRS 16 on the Company's financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the directors complete the detailed review.

NOTES TO THE FINANCIAL STATEMENTS

I ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2017 and future annual periods (Continued)

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - i) the original liability is derecognised;
 - ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
 - iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

The directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Company's financial statements as the Company does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The management of the Company do not anticipate that the application of these amendments will have a material impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

(iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2017 and future annual periods (Continued).*

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify the following:

- Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
- When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
- The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
- In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The management of the Company do not anticipate that the application of these amendments will have a material impact on the Company's financial statements.

(iv) *Early adoption of standards*

The company did not early-adopt any new or amended standards in the year.

Basis of preparation

The financial statements are prepared under the historical cost basis of accounting except for the measurement at fair value of certain financial instruments.

Revenue recognition

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), rebates and discounts. Sales of goods are recognised in the period in which the company delivers products to the customer (for export customers on issuance of bill of lading) and collectability of the related receivables is reasonably assured.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Foreign currencies

The company's functional currency is the US dollar which is the currency in which funds from financing activities are usually generated and receipts from operating activities are usually retained. The presentation currency in these financial statements is the Kenya shilling.

Transactions denominated in foreign currencies are recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period foreign currency monetary items are translated using the closing rate while non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise. At the end of each reporting period, assets and liabilities are translated to the presentation currency at the closing rate while income and expenses are translated at exchange rates ruling at the dates of the transactions. All resulting exchange differences are recognised in profit or loss.

Taxation

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

(i) Current tax

Taxable profit differs from profit as reported in the profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Taxation (Continued)

(iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Investments in subsidiaries

A subsidiary is an enterprise which the company controls through governing the financial and operating policies of the entity so as to obtain benefits from its activities. Investments are stated at cost less accumulated impairment.

The results of the dormant subsidiary company, Magadi Railway Company Limited, have not been consolidated because, in the management's opinion, consolidation of this subsidiary would be of no real value to the membership in view of the immateriality of the amounts involved given the investment is fully impaired.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation, less any impairment losses. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives are as follows:

Buildings	10%
Furniture, fittings and equipment	20%
Plant & machinery	12.5%
Computer equipment	33.33%
Motor vehicles - heavy	10%
Motor vehicles - light	20%
Locomotives, rail and wagons	12.50%

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any change in estimate accounted for on a prospective basis. The gain or loss arising on disposal of an item of property 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.

Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and are amortised on straight line basis over the period of the lease.

Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is arrived at on a weighted average method and includes cost of purchases, cost of production and other cost incurred in bringing inventory to their present location and condition. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses. Provision is made for obsolete, slow moving and defective stocks as and when determined.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

I ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Gains and losses arising from changes in fair value are recognised in the profit or loss.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as Available-for-sale financial assets or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The company has investments in debt securities that are traded in an active market and are stated at fair value at the end of each reporting period. The fair value of available-for-sale debt securities is determined by reference to published price quotations in an active market. Interest income calculated using the effective interest method is recognised in profit or loss except for interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets which is deducted from the borrowing costs eligible for capitalisation.

Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (continued)

(iii) *Available-for-sale financial assets (Continued)*

Dividends on available for sale (AFS) equity instruments are recognised in profit or loss when the company's right to receive the dividends is established

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

(iv) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For available-for-sale debt securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (continued)

(iv) *Loans and receivables (Continued)*

Impairment of financial assets (Continued)

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Derecognition of financial assets (Continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the company retains control), the company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Classification as debt or equity

Debt and equity instruments issued by the company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or 'other financial liabilities'.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

I ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Derivative financial instruments

The company holds derivative financial instruments to hedge its interest rate risk and fuel price risk exposure. These derivatives are initially recognised at fair value plus transaction costs. They are subsequently carried at fair value since this approximates amortised cost due to the short term nature of the financial instrument. A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities. They are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting of financial instruments

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

Cashflow Hedges

The company implemented hedge accounting with effect from 1st October 2015. The effective portion of changes in the fair value of derivatives that are designated and qualify as Cashflow hedges is recognized in other comprehensive income and accumulated under the heading of Cashflow reserve. The gain or loss relating to the ineffective is recognized immediately in profit or loss, and is included in the other gains and losses' line item.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provision for the expected cost of warranty obligation is recognised at the date of sale of the goods at the best estimate of the expenditure required to settle the company's obligation.

Employee benefits

(i) *Company's defined contribution plan*

The company operates a defined contribution provident scheme for eligible employees. The scheme is administered independently of the company's assets and is funded by contributions from both the company and employees. Contributions to the defined contribution plan are charged to profit or loss in the year to which they relate.

(ii) *Statutory defined contribution pension scheme*

The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Sh 200 per employee per month. The company's contributions to the above schemes are charged to profit or loss in the year to which they relate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

(iii) Other employee entitlements

Entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the end of the reporting period.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks net of bank overdrafts.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2 CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

Property, plant and equipment

The company performs an assessment at the end of each reporting period whether there is any indication that property, plant and equipment may be impaired. If any such indication exists, an estimate is made of the recoverable amount of 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.

In performing this assessment, the company considers the following indications:

- a) An asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- b) significant changes with an adverse effect on the company have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the company operates or in the market to which an asset is dedicated.
- c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- d) evidence is available of obsolescence or physical damage of an asset.
- e) significant changes with an adverse effect on the company have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date
- f) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Other assets

At each end of the reporting period, the company reviews the carrying amounts of its other 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.

3 GOING CONCERN

The company incurred a loss of Sh 38 million during the year ended 31 March 2017 (2016 – profit of Sh 165 million). At 31 March 2017 the company was funded by a \$ 59 million (Sh 6 .1 billion) long term loan provided by RABO Bank and \$ 2 million (Sh 206 million) overdraft loan from Bank of India. It also has a cash overdraft facility from Standard Chartered Bank for \$ 12 million which is used partially as and when the need arises. Utilization as at 31st March for this facility was nil. The company had improved cash flow in the year with Sh 430 million at the reporting date compared to Sh 249 million the previous year. The company received refunds amounting to Sh 542 million from KRA during the year ended 31 March 2017 (2016 Sh 797 million). VAT receivables at the close of the year was Sh 403 million (2016 – Sh 617 million).

Management have prepared forecasts of the company's profitability and cash generation for the 12 months from the date of the Auditor's Report (the "forecasts"), taking into account the sensitivity of business performance to reasonably possible changes in market conditions and as a result of the current economic climate. These forecasts indicate that the loan and/or overdraft facilities should be sufficient to support the company's funding during the period.

In making their assessment management have also considered the net liability position of the Company. The majority of this deficit arises due to accumulated losses of past years. The Company is making Profits after the restructuring and is confident to improve the position in the coming years.

After reviewing the forecasts, considering reasonably possible uncertainties and making such other enquiries as were necessary, the directors have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The parent company has pledged to continue providing the necessary financial support that may be required to enable the company pay its liabilities as they fall due in the foreseeable future.

4 FINANCIAL RISK MANAGEMENT

The management has overall responsibility for the establishment and oversight of the company's risk management framework, including implementation and monitoring of these policies.

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

The company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

(a) Credit risk

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The credit risk on liquid funds and derivative assets is limited because the counterparties are financial institutions with high credit ratings. The company has policies in place to ensure that invoices for goods provided to customers are collected within an appropriate time period and that loss to the company is minimised in the event of default. The collateral held for trade receivables include guarantees from reputable banks recommended by the company.

Exposure to credit risk

The carrying value of the company's financial assets represents its maximum exposure to credit risk. The maximum exposure to credit risk as at the end of the reporting period was as follows:

	2017 Sh 'm	2016 Sh 'm
Trade receivables	568	559
Due from related parties	126	224
Derivative assets	3	-
Bank balances	430	249
	<u>1,127</u>	<u>1,032</u>

The table below represents the categorisation of the company's financial assets as at the reporting date.

	Neither past due nor impaired Sh 'm	Past due but not impaired Sh 'm	Impaired Sh 'm	Total Sh 'm
At 31 March 2017				
Trade receivables	532	14	22	568
Due from related companies	126	-	-	126
Derivative assets	3	-	-	3
Bank balances	430	-	-	430
Less trade receivables impairment provision	-	-	(22)	(22)
	<u>1,091</u>	<u>14</u>	<u>-</u>	<u>1,105</u>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Exposure to credit risk (Continued)

	Neither past due nor impaired Sh 'm	Past due but not impaired Sh 'm	Impaired Sh 'm	Total Sh 'm
At 31 March 2016				
Trade receivables	438	121	22	581
Due from related companies	224	-	-	224
Bank balances	249	-	-	249
Less trade receivables impairment provision	-	-	(22)	(22)
	<u>911</u>	<u>121</u>	<u>-</u>	<u>1,032</u>

The customers under the neither past due nor impaired category are paying their debts as they continue trading. The default rate is low. The debt that is impaired has been fully provided for. However, the finance department is following up on the impaired debt, through pursuit of the debtors, debt collectors as well as through legal action.

(b) Liquidity risk

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

The company manages its cash position and future outflows on an ongoing basis. The company ensures that it has sufficient cash on demand to meet expected operational expenses and liabilities as they fall due. The following are the contractual maturities of financial liabilities, including interest payments, and excluding the impact of netting arrangements:

	1 – 6 Months Sh 'm	6 – 12 months Sh 'm	1 – 5 years Sh 'm	Above 5 years Sh 'm	Total Sh 'm
At 31 March 2017					
Trade payables	732	-	-	-	732
Due to related parties	35	-	-	-	35
Borrowings	206	-	6,061	-	6,267
Preference shares	-	-	-	4,368	4,368
Derivative liabilities	76	-	-	-	76
Total financial liabilities (contractual maturity dates)	<u>1,049</u>	<u>-</u>	<u>6,061</u>	<u>4,368</u>	<u>11,478</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

	1 – 6 Months Sh 'm	6 – 12 months Sh 'm	1 – 5 years Sh 'm	Above 5 years Sh 'm	Total Sh 'm
At 31 March 2016					
Trade payables	838	-	-	-	838
Due to related parties	82	-	-	-	82
Borrowings	101	-	5,978	-	6,079
Preference shares	-	-	-	4,298	4,298
Derivative liabilities	292	-	-	-	292
Total financial liabilities (contractual maturity dates)	<u>1,313</u>	<u>-</u>	<u>5,978</u>	<u>4,298</u>	<u>11,589</u>

(c) Market risk management

Market risk is the risk arising from changes in market prices, such as interest rate and foreign exchange rates which will affect the company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the company's management.

(i) Interest rate risk

Interest rate risk arises primarily from borrowings as disclosed in note 19. The company's borrowings are primarily on a variable rate basis and are pegged to the London Interbank Offering Rate (LIBOR). The company's management ensures that as far is possible, interest rates negotiated for any financing facility is advantageous to the company. Where necessary, management considers the use of available instruments such as swap arrangements in mitigating the company's exposure.

As at the end of the reporting period, an increase/decrease of 3 percentage points on interest rates would have resulted in a decrease/increase in pre-tax profit of Sh 5,606,000 (2016 – Sh 4,725,000). In addition, an increase/decrease of 3 percentage points on interest rates would have resulted in a decrease/ increase in equity of Sh 2,125,000 (2016- Sh 11,439,000).

(ii) Price risk

The company holds derivative financial instruments to hedge its interest rate risk and fuel price risk exposure.

	% change in base	2017 Sh 'm	2016 Sh 'm
Interest rate & commodity swaps	+(-)5%	+(-) 4	+(-) 15

(iii) Currency risk

The company undertakes certain transactions denominated in foreign currencies, mainly the US dollar. This results in exposures to exchange rate fluctuations. The balances impacted in this regard are the balances due to foreign suppliers, balances due from foreign debtors or denominated in foreign currency, bank balances and borrowings denominated in foreign currency.

As at the end of the reporting period, an increase/decrease of 3 percentage points on exchange rates would have resulted in an decrease/increase in pre-tax profit of Sh 188,000,100 (2016 – Sh 182,394,000). In addition, an increase/decrease of 3 percentage points on exchange rates would have resulted in a decrease/ increase in equity of Sh 131,054,341 (2016- Sh 128,929,000).

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Market risk management (continued)

(iii) Currency risk (Continued)

The carrying amount of the company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date is:

	Kshs Sh 'm	Others Sh 'm	Total Sh 'm
At 31 March 2017			
Financial assets			
Trade receivables	167	401	568
Due from related parties	-	126	126
Prepayments	-	203	203
Derivative asset	3	-	3
Cash and bank balances	67	363	430
	<u>237</u>	<u>1,093</u>	<u>1,330</u>
Financial liabilities			
Trade payables	545	187	732
Advances from customers	-	77	77
Borrowings	-	6,267	6,267
Derivative liabilities	-	76	76
	<u>545</u>	<u>6,607</u>	<u>7,152</u>
Net foreign currency liability	<u>308</u>	<u>5,510</u>	<u>5,818</u>
At 31 March 2016			
Financial assets			
Trade receivables	158	401	559
Due from related parties	-	224	224
Prepayments	-	203	203
Derivative asset	-	-	-
Cash and bank balances	72	177	249
	<u>230</u>	<u>1,005</u>	<u>1,235</u>
Financial liabilities			
Trade payables	477	361	838
Advances from customers	-	71	71
Borrowings	-	6,079	6,079
Derivative liabilities	-	292	292
	<u>477</u>	<u>6,803</u>	<u>7,280</u>
Net foreign currency liability	<u>247</u>	<u>5,798</u>	<u>6,045</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(d) Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 Sh 'm	Level 2 Sh 'm	Level 3 Sh 'm	Total Sh 'm
At 31 March 2017				
Derivative assets	-	3	-	3
Derivative liabilities	-	(76)	-	(76)
	<u>-</u>	<u>(76)</u>	<u>-</u>	<u>(73)</u>
Net position	-	(73)	-	(73)
	<u>-</u>	<u>(73)</u>	<u>-</u>	<u>(73)</u>
At 31 March 2016				
Derivative liabilities	-	(292)	-	(292)
	<u>-</u>	<u>(292)</u>	<u>-</u>	<u>(292)</u>
Net position	-	(292)	-	(292)
	<u>-</u>	<u>(292)</u>	<u>-</u>	<u>(292)</u>

There were no transfers between the various levels in the year.

The fair value of the derivatives is determined by using inputs other than quoted prices that are observable for the asset or liability such as implied volatilities of Heavy Furnace Oil (HFO) prices and Libor rates.

5 CAPITAL RISK MANAGEMENT

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders, comprising issued capital and retained earnings. Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by equity.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 CAPITAL RISK MANAGEMENT (Continued)

The gearing ratio as at the end of the year was in an adverse position 1,338% (2015 – 1,517%). The gearing ratio has been primarily affected by the loss in the current year, unrealised foreign exchange loss on the US dollar borrowings as well as borrowings obtained in the year. As indicated in note 3, the company has put in place several measures aimed at reducing reliance on external borrowings which will in turn improve the gearing ratio. The board and management monitor the capital requirements of the company on an ongoing basis to ensure that these continue to be in line with the company's strategic goals.

The constitution of capital managed by the company is as shown below:

	2017 Sh 'm	2016 Sh 'm
Share capital	134	134
Cashflow hedging reserve	3	(65)
Revenue deficit	(7,809)	(7,779)
	<hr/>	<hr/>
Equity	(7,672)	(7,710)
	<hr/>	<hr/>
Borrowings	6,267	6,079
Preference shares	4,368	4,298
Less cash and bank balances	-	-
	<hr/>	<hr/>
Net debt	10,635	10,377
	<hr/>	<hr/>
Gearing	>100%	>100%
	<hr/> <hr/>	<hr/> <hr/>

6 REVENUE

Standard ash Magadi (SAM)	5,618	7,078
Crushed refined soda (CRS)	229	182
Salt	240	204
Other income	2	11
	<hr/>	<hr/>
	6,089	7,475
	<hr/> <hr/>	<hr/> <hr/>

Other income relates to revenue from goods hauled on behalf of Rift Valley Railways.

7 FINANCE COSTS

	2017 Sh 'm	2016 Sh 'm
Interest on bank overdraft	-	3
Interest on borrowings	196	334
Interest on swap derivative	(214)	(5)
Discounting interest	3	17
Other bank charges	24	37
	<hr/>	<hr/>
	9	386
	<hr/> <hr/>	<hr/> <hr/>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 DERIVATIVE COSTS

The company has implemented the hedge accounting with effect from 1st October 2015. The effective portion of changes in the fair value of derivatives that are designated and qualify as Cashflow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective is recognized immediately in profit or loss, as net fair value on hedging instruments entered into for Cashflow hedges as indicated below

(a) DERIVATIVE INEFFECTIVENESS

	2017 Sh 'm	2016 Sh 'm
HFO Hedge Derivative	(75)	13
Interest Swap Derivative	13	-
	<u>62</u>	<u>13</u>

(b) NET FAIR VALUE (GAIN)/LOSS ON HEGDING INSTRUMENTS ENTERED INTO FOR CASH FLOW HEDGES

	2017 Sh 'm	2016 Sh 'm
Interest Swap Derivative - OCI	(38)	30
HFO Hedge Derivative - OCI	(30)	35
	<u>(68)</u>	<u>65</u>

9 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

Staff costs (note 10)	1,039	844
Depreciation and impairment charge (note 12)	334	265
Auditors' remuneration	5	6
Inventory impairment provision	238	59
Directors' remuneration - fees	3	2
- other	1	1
	<u>1,039</u>	<u>844</u>

10 STAFF COSTS

Salaries and wages	1,008	815
Provident fund contributions	29	27
NSSF contributions	2	2
	<u>1,039</u>	<u>844</u>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016	2015
	Sh 'm	Sh 'm
II TAXATION		
(a) Taxation charge		
Current taxation based on adjusted profit for the year at 30%	-	-
Deferred tax credit (note 15)		
- current year	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
(b) Reconciliation of expected tax based on accounting loss to taxation credit		
Accounting profit (loss) before taxation	(30)	165
	<u>(30)</u>	<u>165</u>
Tax at the applicable rate of 30%	(9)	50
Tax effect of expenses not allowable for tax	19	278
Deferred tax assets not recognised (note 15)	(10)	(328)
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
(c) Taxation payable		
At start and end of the year	107	107
	<u>107</u>	<u>107</u>

The tax payable of Kshs 107 million relates to the tax provision as at 1 April 2010 that was in respect of a corporation tax demand by the Kenya Revenue Authority (KRA) for the years 2003 to 2005. In 2003, the Minister for Finance granted the company a corporation tax deferral for the period 2003 to 2005 under section 123 of the Income Tax Act, Cap 470 of the Laws of Kenya, in support of the pure ash plant project. By a letter dated 18 July 2003, KRA issued a directive to the company to the effect that the corporation tax for the period 2003 to 2005 shall not be demanded and that the company should file a consolidated tax computation for the period 2003 to 2006 incorporating the tax allowances arising on commissioning of the pure ash plant. The company complied with the KRA directives and filed a 2003 to 2006 consolidated tax computation reflecting an adjusted tax loss.

On 19 March 2008 KRA raised a demand for Kshs 771 million of the tax previously deferred and notified the company that KRA is of the view that the corporation tax for the period 2003 to 2005 is payable. Management disputed this claim and the matter was referred to the High court which subsequently passed a consent order on 31st March 2009 to offset the amount payable to KRA from VAT claims refundable (included in other debtors) to Magadi from KRA which are in excess of the amount demanded. An out of court agreement was reached between the company and KRA setting the company's tax liability at Kshs 771,464,156 to be offset against VAT recoverable from KRA and this was done in entirety in the year ended 31 March 2014.

Management has considered it prudent to retain the residual provision in this account pending a ministerial waiver on interest and penalties after which any residual balances will be written back to profit or loss.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 PROPERTY AND EQUIPMENT

	Land & buildings Sh 'm	Plant & machinery Sh 'm	Motor vehicles Sh 'm	Fixtures, furniture & equipment Sh 'm	Capital work in progress Sh 'm	Total Sh 'm
COST						
At 1 April 2015	905	13,960	404	283	123	15,642
Additions	-	-	-	-	310	310
Transfers from WIP	60	33	73	13	(179)	-
Adjustment*	-	-	-	-	88	88
Disposals	-	-	(19)	-	-	(19)
At 31 March 2016	965	13,960	458	296	342	16,021
At 1 April 2016	965	13,960	458	296	342	16,021
Additions	-	-	-	-	465	465
Transfers from WIP	22	304	154	86	(566)	-
Adjustment*	-	-	-	-	(36)	(36)
Disposals	-	(4)	-	-	-	(4)
At 31 March 2017	987	14,260	612	382	205	16,446
DEPRECIATION						
At 1 April 2015	701	12,919	300	268	-	14,188
Charge for the year	28	197	34	6	-	265
Disposals	-	-	(19)	-	-	(19)
At 31 March 2016	729	13,116	315	274	-	14,434
At 1 April 2016	729	13,116	315	274	-	14,434
Charge for the year	51	207	56	20	-	334
Disposals	-	(4)	-	-	-	(4)
At 31 March 2017	780	13,319	371	294	-	14,764
NET BOOK VALUE						
At 31 March 2017	207	941	241	88	205	1,682
At 31 March 2016	236	844	143	22	342	1,587

*This relates to PAM critical spares inventory previously written off in prior period utilised in the current period

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Sh 'm	2016 Sh 'm
13		
PREPAID OPERATING LEASE RENTALS		
COST		
At 1 April and 31 March	18	18
	<u> </u>	<u> </u>
AMORTISATION		
At 1 April and 31 March	18	18
	<u> </u>	<u> </u>
NET BOOK VALUE		
At 31 March	-	-
	<u> </u>	<u> </u>
14		
INTANGIBLE ASSETS - Computer software		
COST		
At 1 April and 31 March	14	14
	<u> </u>	<u> </u>
AMORTISATION		
At 1 April and 31 March	14	14
	<u> </u>	<u> </u>
NET BOOK VALUE		
At 31 March	-	-
	<u> </u>	<u> </u>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 DEFERRED TAXATION

Deferred income taxes are calculated on all temporary differences under the liability method using the current tax rate of 30%. The net deferred tax asset is made up as follows:

	2017 Sh 'm	2016 Sh 'm
Deferred tax assets:		
Unutilised tax losses	2,308	2,428
Unrealised exchange loss/(gain)	458	418
Leave pay provision	24	16
General provisions	130	74
Excess depreciation over wear and tear allowance	275	292
	<u>3,195</u>	<u>3,228</u>
Deferred tax assets not recognised*	(2,464)	(2,497)
	<u>731</u>	<u>731</u>

The movement on the deferred income tax asset is as follows:

At beginning and end of year	731	731
	<u>731</u>	<u>731</u>

*The company has made losses in the last several years which have resulted in a deferred tax asset largely arising out of tax losses carried forward. As indicated in note 3, management has taken steps to return the company to profitability with Sh 38 million profit at the close of the year. Management has therefore considered it prudent not to recognize an additional deferred tax asset until the steps being taken yield the expected results.

As at 31 March 2017, the company had accumulated tax losses amounting to Sh 7,693,508,285 (2016: Sh 8,093,197,171) available for future tax relief. Under the new Kenyan legislation, with effect from 1 January 2010, tax losses can only be carried forward for a maximum of ten years.

16 INVENTORY

	2017 Sh 'm	2016 Sh 'm
Raw materials and consumables	573	718
Finished goods and goods for resale	651	249
Work in progress	17	15
	<u>1,241</u>	<u>982</u>
Provision for obsolete stock	(306)	(102)
	<u>935</u>	<u>880</u>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 TRADE AND OTHER RECEIVABLES

	2017	2016
	Sh 'm	Sh 'm
Trade receivables	568	559
VAT receivable	403	617
Prepayments	203	203
Due from related parties (note 23)	126	224
Sundry receivables	170	176
	<u>1,470</u>	<u>1,779</u>

As at 31 March, the ageing analysis of trade receivables is as follows:

	Total Sh 'm	< 30 days Sh 'm	30-60 days Sh 'm	61-90 days Sh 'm	91-120 days Sh 'm	> 120 days Sh 'm
31 March 2017	694	675	2	2	3	11
31 March 2016	783	535	108	90	9	41

18 DERIVATIVE FINANCIAL INSTRUMENTS

	2017	2016
	Sh 'm	Sh 'm
Derivative assets:		
Fuel swaps	3	-
Derivative liabilities:		
Fuel swaps	-	(59)
Interest rate swap	(76)	(233)
	<u>(73)</u>	<u>(292)</u>
Net position	<u>(73)</u>	<u>(292)</u>

The 2017 fuel swaps related to fixed price commodity swap derivative contracts entered into with Standard Chartered Bank of Kenya Limited and Barclays Bank of Kenya Limited. However, three fixed price commodity swap with Barclays Bank of Kenya Limited expired in July 2016, September 2016 and November 2016. The company entered into four new fixed price swaps with Barclays Bank of Kenya Limited expiring in July 2017 (Two), January 2018 & July 2018. Further the company has entered four new fixed price swaps with Standard Chartered Bank of Kenya expiring on July 2017 and February 2018.

To reduce the fair value risk of changing interest rates, the company has entered into a pay-floating receive-fixed interest rate swap arrangement with Rabobank International. The swap's notional principal is US\$ 59 million and matches the principal of the long term borrowings. The notional amount is the principal outstanding at the points of settlement based on the initial repayment periods and amounts. The swap rate is 2.53% per annum and the floating rate is pegged to the 6-month LIBOR. The swap matures on 17 July 2020.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Movements in the fair values of the derivative instruments are charged/credited to profit or loss.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 SHARE CAPITAL

	2017	2016
	Sh 'm	Sh 'm
Authorised:		
2,980,000 ordinary shares of £1 each*	343	343
	<u> </u>	<u> </u>
Issued and fully paid up:		
2,727,934 ordinary shares of £1 each*	134	134
	<u> </u>	<u> </u>

*The Sterling value of issued share capital has been translated to Kenya Shillings at the historical rate.

20 BORROWINGS

	2017	2016
	Sh 'm	Sh 'm
<i>Loans:</i>		
Rabo Bank International	6,061	5,978
Bank of India	206	101
	<u> </u>	<u> </u>
	6,267	6,079
	<u> </u>	<u> </u>
The maturity profile of borrowings is as follows:		
Within one year	206	101
	<u> </u>	<u> </u>
Over five years	6,061	5,978
	<u> </u>	<u> </u>
	6,267	6,079
	<u> </u>	<u> </u>
The movement in loans during the year was as follows:		
At 1 April	6,079	5,922
Borrowings received	103	-
Borrowings repaid	-	(407)
Interest expense	196	411
Interest paid	(196)	(411)
Currency translation	(123)	564
	<u> </u>	<u> </u>
At 31 March	6,061	6,079
	<u> </u>	<u> </u>

The borrowings from Rabo Bank International are unsecured and are denominated in US dollars. At 31 March 2017 the group was funded by a US\$ 59 million long term loan provided by RABO Bank. The interest charged is LIBOR plus 1.8 % per annum. Interest and the principal are repayable half yearly commencing September 2018 in five equal instalments.

The borrowings from Bank of India amounted to US\$ 2 million and are denominated in US Dollars. The facility is fully covered by VAT refunds due to the company from Kenya Revenue Authority (KRA).

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 BORROWINGS (Continued)

The company has an overdraft facility with Standard Chartered Bank of Kenya Limited of US\$ 12 million for purposes of financing working capital. The facility attracts interest at a rate of LIBOR plus 5% (2016 --5%) per annum. The overdraft is secured by a pari passu first ranking debenture over the company's receivables and inventories with Barclays Bank of Kenya Limited and supported by an inter-creditor agreement between Standard Chartered Bank of Kenya Limited and Barclays Bank of Kenya Limited. Utilization as at 31st March for this facility was nil.

The company was in compliance with all the loan covenants.

21 PREFERENCE SHARES

	2017 Sh 'm	2016 Sh 'm
Gusiute	4,368	3,295
Homefield Pvt UK Limited	-	1,003
	<u>4,368</u>	<u>4,298</u>
The movement in loans during the year was as follows:		
At 1 April	4,298	3,916
Preference shares issued	-	-
Currency translation	70	382
	<u>4,368</u>	<u>4,298</u>
At 31 March	<u>4,368</u>	<u>4,298</u>

In 2012, the company issued to Gusiute Holdings (UK) Limited 32,512,408 redeemable preference shares of USD 1.0 each fully paid. In 2014 and 2015, the company issued an additional 9,900,000 redeemable preference shares of USD 1.0 each to Homefield Pvt UK Limited. The preference shares are redeemable at the option of the issuer. The company shall redeem all of the preference shares on 31 March 2023.

	No of shares	Nominal value USD	Value of shares USD
Gusiute	32,512,408	1	32,512,408
Homefield Pvt UK Limited	9,900,000	1	9,900,000
	<u>42,412,408</u>		<u>42,412,408</u>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 TRADE AND OTHER PAYABLES

	2017	2016
	Sh 'm	Sh 'm
Trade payables	732	838
Accrued expenses	1,169	1,109
Due to related parties (note 23)	35	82
Dividend payable	73	73
Other payables	96	58
	<u>2,105</u>	<u>2,160</u>

23 RELATED PARTY BALANCES AND TRANSACTIONS

In the ordinary course of business, transactions are entered into with the companies related to Tata Chemicals Magadi Limited through common shareholding or common directorships. The relevant balances are shown below.

	2017	2016
	Sh 'm	Sh 'm
Amounts due from related companies		
Tata Chemicals (SA) Limited	53	102
Tata Chemicals International Pte Ltd	47	78
Tata Chemicals Limited	26	44
	<u>126</u>	<u>224</u>
Amounts due to related companies		
<i>Trade and other payables</i>		
Tata Chemicals Limited	35	73
Tata Chemicals North America Ltd	-	1
Tata Chemicals Europe Limited	-	8
	<u>35</u>	<u>82</u>
Sales to related companies		
Tata Chemicals (SA) Limited	117	250
Tata Chemicals International Pte Ltd	339	2,826
Tata Chemicals Limited	196	67
	<u>652</u>	<u>3,143</u>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Key management compensation

The remuneration of key members of management during the year was as follows:

	2017 Sh 'm	2016 Sh 'm
Salaries and other short-term employment benefits	40	46
Directors' remuneration		
Fees	3	2
Other emoluments (included in key management compensation above)	1	1
	<u>4</u>	<u>3</u>

24 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of loss before taxation to cash (used in)/generated from operations

(Loss)/Profit before taxation	(30)	165
Adjustments for:		
Depreciation and impairment of property, plant and equipment (note 12)	334	265
Unrealised exchange loss on borrowings	154	564
Unrealised exchange loss on preference shares	-	382
Finance costs	9	386
Gain on disposal of assets	-	(2)
Critical spares written off/(back)	36	(88)
Hedge ineffectiveness on cashflow hedges	(62)	13
Working capital changes:		
Inventory	(55)	(70)
Trade and other receivables	309	682
Trade and other payables	(55)	(281)
Derivative assets and liabilities	(219)	24
Cashflow Hedge	81	
Derivative Movement	138	
	<u>765</u>	<u>2,040</u>

(b) Analysis of cash and cash equivalents

Cash and bank balances	<u>430</u>	<u>249</u>
------------------------	------------	------------

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Sh 'm	2016 Sh 'm
25 INVESTMENT IN SUBSIDIARY		
Shares at cost	-	-

The company holds 100% of the issued ordinary share capital of Magadi Railway Company Limited which is incorporated in Kenya. The company is a non-operating entity with no assets and liabilities.

The cost of investment is less than Sh 1 million.

	2017 Sh 'm	2016 Sh 'm
26 CAPITAL COMMITMENTS		
Authorised and contracted for	161	52
Authorised but not contracted for	354	168

	2017 Sh 'm	2016 Sh 'm
27 OPERATING LEASE COMMITMENTS		
Within one year	74	76
Between one and five years	177	-
Between one and five years	251	76

28 CONTINGENT LIABILITIES

In 2015, Tata Chemicals Magadi Limited (the company) placed a deposit of Sh 75 Million (US\$ 733,056) with Kenya Revenue Authority (KRA) as security pending completion of KRA tax investigations and a reconciliation exercise to assess whether any additional tax liability will be imposed on the company. KRA instructed the company to make the deposit payment as a security pending conclusion of the tax reconciliation exercise. The reconciliation exercise appears to have been completed, however the amount deposited is yet to be refunded to the company. Management is pursuing the refund with the KRA.

In April 2014, the company was notified by KRA of a formal assessment for corporation tax, Value added tax (VAT) and withholding tax amounting to Sh 1.213 Billion (US\$ 11.85 Million) for the tax years 2007 - 2011. The KRA demand related to under-declared corporation taxes, withholding tax on the deemed interest on the Gusiute holdings loan and VAT in respect of works provided by Tata Chemicals Magadi to Kenya Railways Corporation Limited. Management contested these demands and engaged KPMG, the tax Advisors to review the assessment and correspondence and responses were made by KPMG to KRA on the issue. In October 2014, KRA vacated VAT demand of Sh 70.4 Million (US\$ 688,095). Further, the Company submitted details for withholding tax on deemed interest on the Gusiute borrowing of Sh 102.3 Million to KRA and no demand has been received from KRA. The effect of these submission resulted into net claims by KRA amounting to Sh 1.040 Billion (US\$ 10.3 Million).

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 CONTINGENT LIABILITIES (Continued)

The company was granted a tax holiday for the years 2003 to 2005 by the Minister of Finance, under section 123 of the Income Tax Act, Cap 470 of the laws of Kenya, in support of the construction of the Pure Ash Plant (PAM plant). By a letter dated 18 July 2003, KRA issued a directive to the company to the effect that the corporation tax for the period 2003 to 2005 shall not be demanded and that the company should file a consolidated tax computation for the period 2003 to 2006 incorporating the tax allowances arising on commissioning of the pure ash plant. The company complied with the KRA directives and filed a 2003 to 2006 consolidated tax computation reflecting an adjusted tax loss. On 19 March 2008 KRA raised a demand for Sh 771 Million of the tax previously deferred and notified the company that KRA is of the view that the corporation tax for the period 2003 to 2005 is payable. Management disputed this claim and the matter was referred to the High court which subsequently passed a consent order on 31st March 2009 to offset the amount payable to KRA from VAT claims refundable (included in other debtors) to Tata Chemicals Magadi Limited from KRA which are in excess of the amount demanded. An out of court agreement was reached between the company and KRA setting the company's tax liability at Sh 771,464,156 to be offset against VAT recoverable from KRA and this was done in entirety in the year ended 31 March 2011.

In May 2015, the company received a demand from KRA for penalties and interest on corporation taxes for the years 2003 to 2006 amounting to Sh 1.233 Billion (US\$ 12.05 Million). The company applied for a waiver of this amount and on 27 August 2015, the KRA waived 55% of the penalty and interest amounting to Sh 678.3 Million (US\$ 6.6 million) leaving a net claim outstanding of Sh 555 Million (US\$ 5.4 Million). On 6th October 2015, KRA further sent a letter demanding for the immediate payment of Sh 121.96 Million (US\$ 1.19 million) being corporation tax arrears, penalties and interest for the 2001 and 2002 years of income. It's worth noting that the demand is beyond the seven years limit for tax purposes. The company has contested these demands and the matter is still being pursued with KRA.

29 INCORPORATION AND UTLIMATE HOLDING COMPANY

The company is a subsidiary undertaking of Homefield Pvt UK Limited, which is incorporated in Great Britain and registered in England and Wales, and whose registered office is Mond House, P O Box 4, Winnington, Northwich, Cheshire, CW8 4DT.

The smallest company in which the results of the company are consolidated is Homefield Pvt UK Limited.

The largest group in which the results of the company are consolidated is Tata Chemicals Limited, a company incorporated in India, which is the ultimate parent company of Homefield Pvt UK Limited.

30 CURRENCY

The financial statements are presented in Kenya shillings millions (Sh 'm).

31 SUBSEQUENT EVENTS

There were no material subsequent events after the reporting date requiring disclosure in these financial statements as at the date of the financial statements approval.

TATA CHEMICALS MAGADI LIMITED

DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 31 March 2017

	2017 Sh 'M	2016 Sh 'M
COST OF SALES		
Depreciation and impairment charge	457	247
Inventory change	232	40
Power and Fuel	1,098	1,254
Repairs & maintenance	55	99
Stores & spares	284	448
Salaries	285	294
Other	4	4
	<u>2,415</u>	<u>2,386</u>
DISTRIBUTION COSTS		
Salaries & wages	286	255
Freight, insurance & commission	454	569
Packaging & warehousing	147	161
Port charges	221	236
Customer claims	35	117
Transport charges	642	641
Royalties & taxes	159	191
Depreciation	77	90
Other	220	192
	<u>2,241</u>	<u>2,452</u>
ADMINISTRATIVE EXPENSES		
Salaries & wages	471	336
Depreciation	67	39
Insurance	35	35
IT & communication expenses	49	57
Legal fees	8	6
Professional fees	26	10
Leasehold land	63	40
Repairs & maintenance	32	180
Stores & spares	362	28
Travelling expenses	29	34
Other	72	288
	<u>1,214</u>	<u>1,053</u>