

TATA CHEMICALS MAGADI LIMITED

**REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 MARCH 2016**

TATA CHEMICALS MAGADI LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

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TATA CHEMICALS MAGADI LIMITED

CORPORATE INFORMATION

MANAGEMENT	Jackson Muchira Mbui Michael Fredrick Kingsley Odera Mukundan Ramakrishnan Titus Tukero Naikuni Prashant Kumar Ghose John Mulhall Eknath Atmaram Kshirsagar John Joseph Kerrigan Dr. Yashwant Thorat Zarir Langrana Dr. Stephen Moiko	Managing Director (Resigned on 03 May 2016) (Resigned on 30 September 2015) (Appointed on 30 September 2015) (Resigned on 01 September 2015) (Appointed on 03 May 2016)
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 Advocates Williamson House P O Box 40111 - 00100 Nairobi, Kenya	

TATA CHEMICALS MAGADI LIMITED

REPORT OF THE MANAGEMENT

Management presents its report together with the audited financial statements of Tata Chemicals Magadi Limited (the "company") for the year ended 31 March 2016.

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	2016 Sh 'm	2015 Sh'm
Profit/(loss) before taxation	165	(2,118)
Taxation	-	-
Profit/(loss) for the year	<u>165</u>	<u>(2,118)</u>

AUDITORS

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


Managing Director

5/08/2016

2016

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 is also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. It is also responsible for safeguarding the assets of the company.

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 it determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. Management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. Management further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

As disclosed in note 3 to the financial statements, management acknowledge that the continued existence of the company as a going concern depends on the success of the various strategic measures that management have put in place to return the company to profitability. The management is confident that the company will return to profitability in the near future. Accordingly, management consider that the going concern assumption is appropriate.



Director of Finance



Managing Director

5th August, 2016

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

Report on the Financial Statements

We have audited the accompanying financial statements of Tata Chemicals Magadi Limited set out on pages 6 to 46 which comprise the statement of financial position at 31 March 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Managements' Responsibility for the Financial Statements

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 the management determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation of the financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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 2016 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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.

The engagement partner responsible for the audit resulting in this independent auditors' report is FCPA J W Wangai P/No 1118.

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya

S August 2016

TATA CHEMICALS MAGADI LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2016

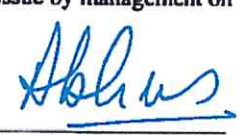
	Note	2016 Sh 'm	2015 Sh 'm
SALES	6	7,475	7,799
COST OF SALES		(2,386)	(3,429)
GROSS PROFIT		5,089	4,370
DISTRIBUTION COSTS		(2,452)	(2,840)
ADMINISTRATIVE EXPENSES		(1,053)	(2,023)
FOREIGN EXCHANGE LOSS		(1,020)	(868)
FINANCE COSTS	7	(386)	(757)
OTHER COSTS	8(a)	(13)	-
PROFIT/(LOSS) BEFORE TAXATION	9	165	(2,118)
TAXATION	11	-	-
PROFIT/(LOSS) FOR THE YEAR		165	(2,118)
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net fair value loss on hedging instruments entered into for cash flow hedges	8(b)	(65)	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		100	(2,118)

TATA CHEMICALS MAGADI LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2016

	Note	2016 Sh 'm	2015 Sh 'm
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,587	1,454
Deferred taxation asset	15	731	731
		<u>2,318</u>	<u>2,185</u>
Current assets			
Inventory	16	880	810
Trade and other receivables	17	1,779	2,461
Derivative assets	8(c)	-	5
Cash and bank balances	23(b)	249	86
		<u>2,908</u>	<u>3,362</u>
TOTAL ASSETS		<u><u>5,226</u></u>	<u><u>5,547</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	18	134	134
Cashflow hedging reserve	8(d)	(65)	-
Revenue deficit		(7,779)	(7,944)
Shareholders deficit		<u>(7,710)</u>	<u>(7,810)</u>
Non-current liabilities			
Borrowings	19	5,978	5,448
Preference shares	20	4,298	3,916
		<u>10,276</u>	<u>9,364</u>
Current liabilities			
Trade and other payables	21	2,160	2,441
Borrowings	19	101	1,172
Derivative liabilities	8(c)	292	273
Taxation payable	11	107	107
		<u>2,660</u>	<u>3,993</u>
TOTAL EQUITY AND LIABILITIES		<u><u>5,226</u></u>	<u><u>5,547</u></u>

The financial statements on pages 6 to 46 were approved and authorised for issue by management on
5th August, 2016 and were signed by:


Managing Director


Director of Finance

TATA CHEMICALS MAGADI LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016

	Share capital Sh `m	Cashflow hedging reserves Sh `m	Revenues deficit Sh `m	Total Sh `m
At 1 April 2014	134	-	(5,826)	(5,692)
Total comprehensive loss for the year	-	-	(2,118)	(2,118)
	<u>134</u>	<u>-</u>	<u>(7,944)</u>	<u>(7,810)</u>
At 31 March 2015	134	-	(7,944)	(7,810)
At 1 April 2015	134		(7,944)	(7,810)
Total comprehensive income for the year	-	(65)	165	100
	<u>134</u>	<u>(65)</u>	<u>(7,779)</u>	<u>(7,710)</u>
At 31 March 2016	134	(65)	(7,779)	(7,710)

TATA CHEMICALS MAGADI LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2016

	Note	31 March 2016 Sh 'm	31 March 2015 Sh 'm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	23(a)	2,040	(433)
Interest and other charges paid		(464)	(757)
		<hr/>	<hr/>
Net cash generated from/(used in) operating activities		1,576	(1,190)
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment	12	(310)	(234)
Proceeds of disposal of equipment		2	-
		<hr/>	<hr/>
Net cash used in investing activities		(308)	(234)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings received	19	-	5,297
Repayment of borrowings	19	(407)	(3,508)
		<hr/>	<hr/>
Net cash (used in)/generated from financing activities		(407)	1,789
		<hr/>	<hr/>
Increase in cash and cash equivalents		861	365
Cash and cash equivalents at the beginning of the year		(612)	(977)
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	23(b)	249	(612)
		<hr/> <hr/>	<hr/> <hr/>

TATA CHEMICALS MAGADI LIMITED

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 2016*

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.

IFRS 13 Fair Value Measurement	The amendment to the basis for conclusions of IFRS 13 clarifies that the issuance of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. This amendment does not include any effective date because this is just to clarify the intended meaning in the basis for conclusions.
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As the company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the company's financial statements.

IAS 16 Property, Plant and Equipment; IAS 38 Intangible Assets	The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
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As the company has not revalued its plant and equipment and intangible assets with indefinite useful lives, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the company's financial statements.

IAS 24 Related Party Disclosures	The amendment clarifies that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of compensation to key management personnel that is paid by the management entity to the management entity's employees or directors is not required.
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The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

TATA CHEMICALS MAGADI LIMITED

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 2016 (Continued)

Annual Improvements 2011-2013	<p>The annual improvements 2011-2013 cycle makes amendments to the following standards:</p> <ul style="list-style-type: none"> • IFRS 3 — The amendment clarifies that IFRS 3 does not apply to the accounting for the formation of joint arrangement in the financial statements of the joint arrangement itself. • IFRS 13 — The amendment clarifies that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32. • IAS 40 — The amendment clarifies that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring an investment property must determine whether: <ul style="list-style-type: none"> (a) the property meets the definition of investment property in accordance with IAS 40; and (b) the transaction meets the definition of a business combination in accordance with IFRS 3. <p>An entity should apply the amendment prospectively for acquisitions of investment property from the beginning of the first period for which it adopts the amendment. Consequently, accounting for acquisitions of investment property in prior periods should not be restated. However, an entity may choose to apply the amendment to individual acquisitions of investment property that occurred prior to the beginning of the first annual period occurring on or after the effective date (i.e. 1 July 2014) if and only if information needed to apply the amendment to earlier transactions is available to the entity.</p>
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These IFRS improvements are effective for accounting periods beginning on or after 1 January 2016.

The new terminologies have been adopted in these financial statements. In other respects the application of the amendments does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 March 2016.

<i>New and Amendments to standards</i>	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IAS 1	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IFRS's Annual improvements	1 January 2016

TATA CHEMICALS MAGADI LIMITED

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 2016 and future annual periods

IFRS 9 Financial Instruments

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9. Specifically:

- a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.
- all other debt instruments must be measured at FVTPL.
- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk 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 FVTPL is presented in profit or loss.

Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

TATA CHEMICALS MAGADI LIMITED

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 2016 and future annual periods (Continued)

IFRS 9 Financial Instruments

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as 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 no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

1. the presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and
2. hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

The management of the company anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of the IFRS until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 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.

IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if IFRS 9 is early adopted).

TATA CHEMICALS MAGADI LIMITED

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 2016 and future annual periods (Continued)*

IFRS 15 Revenue from Contracts with Customers (Continued)

As mentioned above, the new revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle 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

Far more prescriptive guidance has been introduced by the new revenue Standard:

- Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.
- Whether the transaction price allocated to each performance obligation should be recognised as revenue over time or at a point in time. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, which is when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IAS 18, the new Standard does not include separate guidance for 'sales of goods' and 'provision of services'; rather, the new Standard requires entities to assess whether revenue should be recognised over time or a particular point in time regardless of whether revenue relates to 'sales of goods' or 'provision of services'.
- When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognised. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new Standard introduces a high hurdle for variable consideration to be recognised as revenue – that is, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- When costs incurred to obtain a contract and costs to fulfil a contract can be recognised as an asset.

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. The directors of the company anticipate that the application of IFRS 15 in the future may not have a significant impact on amounts reported in respect of the company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

TATA CHEMICALS MAGADI LIMITED

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 2016 and future annual periods (Continued)

Amendments to IAS 1 (Disclosure Initiative) (Continued)

The amendments were a response to comments that there were difficulties in applying the concept of materiality in practice as the wording of some of the requirements in IAS 1 had in some cases been read to prevent the use of judgement. Certain key highlights in the amendments are as follows:

- An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
- An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material.
- In the other comprehensive income section of a statement of profit or loss and other comprehensive income, the amendments require separate disclosures for the following items:
 - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss; and
 - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will be reclassified subsequently to profit or loss.

Application of the amendments need not be disclosed. The management of the company anticipate that the application of IAS 1 in the future may not have a significant impact on amounts reported in respect of the company's financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The management of the company do not anticipate that the application of the standard will have a significant impact on the company's financial statements.

TATA CHEMICALS MAGADI LIMITED

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 2016 and future annual periods (Continued).

Annual Improvements 2012-2014 Cycle

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

The amendments to IFRS 5 introduces 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 amendment clarifies that such a change is considered as a continuation of the original plan of disposal and accordingly an entity should not apply paragraphs 27-29 of IFRS 5 regarding changes to a plan of sale in those situations.

The amendments to IFRS 7 provides 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. Also, the amendment clarifies that the offsetting disclosures are not specifically required for all interim periods. However, the disclosures may need to be included in the condensed interim financial statements to satisfy the requirements in IAS 34 *Interim Financial Reporting*.

The amendments to IAS 19 clarifies 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 basis for conclusions to the amendment also clarifies that the depth of the market for high quality corporate bonds should be assessed at a currency level which is consistent with the currency in which the benefits are to be paid. For currencies for which there is no deep market in such high quality bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency should be used.

The management of the company do not anticipate that the application of these amendments will have a significant 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.

TATA CHEMICALS MAGADI LIMITED

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 company 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 item of property, plant and equipment.

The annual depreciation rates used 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.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 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.

TATA CHEMICALS MAGADI LIMITED

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.

TATA CHEMICALS MAGADI LIMITED

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.

TATA CHEMICALS MAGADI LIMITED

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.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 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.

Cash flow Hedges

The company has 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 cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other costs' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

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.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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. The company's contributions to the above schemes are charged to profit or loss in the year to which they relate.

(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.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Property, plant and equipment (Continued)

- 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.

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 made a profit of Sh 165 million during the year ended 31 March 2016 (2015 – loss incurred of Sh 2,118 million). In addition, the company had a shareholders deficit amounting to Sh 7,710 million as at 31 March 2016 (2015 Sh 7,810). At 31 March 2016 the company was funded by a US\$ 59 million (Sh 5,978 million) long term loan provided by Rabo Bank and US\$ 1 million (Sh 101 million) overdraft from Bank of India. It also has a cash overdraft facility from Standard Chartered Bank Kenya Limited for US\$ 12 million which is used partially as and when the need arises. Utilization as at 31st March for this facility was nil. The company registered improved cash flow in the year resulting in a balance of Sh 249 million at the reporting date compared to an overdraft of Sh 698 million the previous year. The company received refunds amounting to Sh 797 million from Kenya Revenue Authority during the year ended 31 March 2016 (2015 Sh 903 million). VAT receivables at the close of the year was Sh 618 million (2015 – Sh 1,092 million).

The 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 the management have also considered the net liability position of the company. The majority of this deficit arises from accumulated losses of past years.

The company is also taking a number of long term measures to improve profitability as follows:

- a) The company has embarked on building of dykes with a budgeted cost of US\$ 1.3 million (Sh 132 million) to alter water flow into the lake with an aim to prevent siltation. This will then improve product quality hence better pricing. In addition, the parent company has initiated a quality cycle where technical experts from the group offices in India come to the plant once every two months, to review the plant and product and ensure spec standards are met.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 GOING CONCERN (Continued)

- b) Utilization of the Premium Ash Magadi (PAM) washery on Standard Ash Magadi (SAM) product to ensure stock build-up. Management decided to use the washer previously used in PAM in order to increase factory efficiencies and enhance stock build up to reduce instances of shortages. Consequently, the company is expected to increase production volumes by 9% in the year to 340,204 MT from 310,907 MT.
- c) The company has implemented lean six sigma program to involve the workforce in identifying productivity improvement and cost saving initiatives in order to improve business profitability. The implementation of the program is now internal and is ongoing, with champions in each department with an aim of removing bottle necks and improving quality, safety and efficiency. In addition the company has established a reward and innovation initiative to encourage employees to contribute to the overall efficiency and cost saving initiatives.
- d) The company is in preliminary discussions with the Government of Kenya on the possibility of exploration of steam around Lake Magadi area with a view to extraction of the same and selling the same to Tata Chemicals Magadi Limited. This would reduce production costs and boost profitability.
- e) Mapping of the lake and proactively plan areas to be drilled so that the quality of SAM can be assessed prior to commencement of full drilling operation. The company has already requisitioned lake mapping equipment in preparation for this.
- f) The company plans to diversify to coal gasification for use in place of Heavy Furnace Oil (HFO), with an aim of reducing production costs. HFO is a major cost element in the manufacturing process, and thus, any fluctuations in the global prices affect production costs significantly. The plans to diversify into coal gasification are scheduled to take off in the coming years. Challenges of import logistics and transportation of the same are some of the issues being looked into before conclusion of the plans.

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

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.

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

- Credit risk
- Liquidity risk
- Market risk

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(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:

	2016 Sh 'm	2015 Sh'm
Trade receivables	559	577
Due from related parties	224	373
Derivative assets	-	5
Bank balances	249	86
	<u>1,032</u>	<u>1,041</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 2016				
Trade receivables	438	121	22	581
Due from related companies	224	-	-	224
Derivative assets	-	-	-	-
Bank balances	249	-	-	249
Less trade receivables impairment provision	-	-	(22)	(22)
	<u>911</u>	<u>121</u>	<u>-</u>	<u>1,032</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 2015				
Trade receivables	419	158	13	590
Due from related companies	373	-	-	373
Derivative assets	5	-	-	5
Bank balances	86	-	-	86
Less trade receivables impairment provision	-	-	(13)	(13)
	<u>883</u>	<u>158</u>	<u>-</u>	<u>1,041</u>

The customers under the past due but not impaired category are paying their debts as they continue trading with the company. 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 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>

TATA CHEMICALS MAGADI LIMITED

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 2015					
Trade payables	869	-	-	-	869
Due to related parties	270	-	-	-	270
Borrowings	698	474	5,448	-	6,620
Preference shares	-	-	-	3,916	3,916
Derivative liabilities	273	-	-	-	273
Total financial liabilities (contractual maturity dates)	2,110	474	5,448	3,916	11,948

(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 as 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 4,725,000 (2015 – Sh 19,050,000). In addition, an increase/decrease of 3 percentage points on interest rates would have resulted in a decrease/ increase in equity of Sh 11,439,000 (2015 - Sh 13,335,000).

(ii) Price risk

The company does not have any financial instruments that are subject to price risk.

(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 182,394,000 (2015 – Sh 184,950,000). In addition, an increase/decrease of 3 percentage points on exchange rates would have resulted in a decrease/increase in equity of Sh 128,929,000 (2015 - Sh 129,465,000).

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:

	Sh Sh 'm	Others Sh 'm	Total Sh 'm
At 31 March 2016			
Financial assets			
Trade receivables	158	401	559
Due from related parties	-	224	224
Prepayments	-	203	203
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>
At 31 March 2015			
Financial assets			
Trade receivables	229	348	577
Due from related parties	-	373	373
Prepayments	-	344	344
Derivative asset	-	5	5
Cash and bank balances	57	29	86
	<u>286</u>	<u>1,099</u>	<u>1,385</u>
Financial liabilities			
Trade payables	562	307	869
Advances from customers	-	64	64
Borrowings	-	6,620	6,620
Derivative liabilities	-	273	273
	<u>562</u>	<u>7,264</u>	<u>7,826</u>
Net foreign currency liability	<u>276</u>	<u>6,165</u>	<u>6,441</u>

TATA CHEMICALS MAGADI LIMITED

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 2016				
Derivative liabilities	-	(292)	-	(292)
	_____	_____	_____	_____
Net position	-	(292)	-	(292)
	=====	=====	=====	=====
At 31 March 2015				
Derivative assets	-	5	-	5
Derivative liabilities	-	(273)	-	(273)
	_____	_____	_____	_____
Net position	-	(268)	-	(268)
	=====	=====	=====	=====

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 level has been primarily affected by the unrealised foreign exchange loss on the US dollar borrowings. However, this has improved from prior period as a result of the profit made in the year. As indicated in note 3, the company has put in place several measures aimed at reducing reliance on external borrowings and increasing profitability 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:

	2016 Sh 'm	2015 Sh 'm
Share capital	134	134
Cash flow hedging reserve	(65)	-
Revenue deficit	(7,779)	(7,944)
	<hr/>	<hr/>
Shareholders deficit	(7,710)	(7,810)
	<hr/>	<hr/>
Borrowings	6,079	6,620
Preference shares	4,297	3,916
Less cash and bank balances	(249)	(86)
	<hr/>	<hr/>
Net debt	10,127	10,450
	<hr/>	<hr/>
Gearing	>100%	>100%
	<hr/> <hr/>	<hr/> <hr/>
6 REVENUE		
Premium ash Magadi (PAM)	-	1,494
Standard ash Magadi (SAM)	7,078	5,934
Crushed refined soda (CRS)	182	161
Salt	204	178
Other income	11	32
	<hr/>	<hr/>
	7,475	7,799
	<hr/> <hr/>	<hr/> <hr/>

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

	2016 Sh 'm	2015 Sh 'm
7 FINANCE COSTS		
Interest on bank overdraft	3	5
Interest on borrowings	334	630
Interest on swap derivative	(5)	(3)
Discounting interest	17	21
Other bank charges	37	104
	<hr/>	<hr/>
	386	757
	<hr/> <hr/>	<hr/> <hr/>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 DERIVATIVE FINANCIAL INSTRUMENTS

The company has implemented hedge accounting with effect from 1st October 2015. The effective portion of changes in the fair value of derivatives that are designated is recognized in other comprehensive income under cash flow hedging reserves. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss and is included in the 'other costs' line item.

Changes in fair value of the hedging instrument between designation or the last reporting date (whichever is later) and the testing date are compared with the change in fair value of the hedged item for the same period. The hedge would be effective if the offset achieved by the hedging instrument is within 80%-125% of the change in fair value of the hedged item.

Heavy Furnace Oil (HFO) hedge derivative

The 2016 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, the fixed price commodity swap with Standard Chartered Bank of Kenya and Barclays Bank of Kenya Limited expired in November 2015 and January 2016 respectively. The company entered into four new fixed price swaps with Barclays Bank of Kenya Limited expiring in June 2016, July 2016, September 2016 and November 2016.

Interest swap derivative

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.

8 (a) OTHER COSTS (HEDGE INEFFECTIVENESS ON CASH FLOW HEDGES)

	2016 Sh 'm	2015 Sh 'm
Profit and loss account		
HFO hedge derivative	12	-
Interest swap derivative	1	-
	<hr/>	<hr/>
	13	-
	<hr/> <hr/>	<hr/> <hr/>

This relates to HFO hedge derivatives 50058920 and 51139221 where there was no hedging relationship that was established and Interest swap CD39862124 which was ineffective in the year ended 31 March 2016.

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

	2016 Sh 'm	2015 Sh 'm
Other comprehensive income		
Interest swap derivative	30	-
HFO hedge derivative	35	-
	<hr/>	<hr/>
	65	-
	<hr/> <hr/>	<hr/> <hr/>

This relates to HFO hedge derivatives 52882309, 60636230 and Interest swap CD39855183 which were found to be effective and have thus been recognised through other comprehensive income under cash flow hedging reserves.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

8(c) DERIVATIVE FINANCIAL INSTRUMENTS

	2016 Sh 'm	2015 Sh 'm
Derivative assets		
Fuel swaps	-	5
	<u> </u>	<u> </u>
Derivative liabilities		
Fuel swaps	((59)	(92)
Interest rate swap	(233)	(181)
	<u> </u>	<u> </u>
	(292)	(273)
	<u> </u>	<u> </u>
Net position	(292)	(268)
	<u> </u>	<u> </u>

8(d) CASH FLOW HEDGING RESERVE

Balance at the beginning of the year	-	-
Net fair value loss on hedging instruments entered in to for cash flow hedges (note 8(b))	(65)	-
	<u> </u>	<u> </u>
Balance at end of year	(65)	-
	<u> </u>	<u> </u>

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the company's accounting policy.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	2016 Sh 'm	2015 Sh 'm
Staff costs (note 10)	844	1,046
Depreciation and impairment charge (note 12)	265	488
Auditors' remuneration	2	2
Inventory impairment provision	59	82
Directors' remuneration - fees	2	2
- other	2	2
	<u>=====</u>	<u>=====</u>

10 STAFF COSTS

Salaries and wages	815	1,008
Provident fund contributions	27	36
NSSF contributions	2	2
	<u>-----</u>	<u>-----</u>
	844	1,046
	<u>=====</u>	<u>=====</u>

11 TAXATION

(a) Taxation credit

Current taxation based on adjusted profit for the year at 30%

Current taxation based on adjusted profit for the year at 30%	-	-
Deferred taxation	-	-
	<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	165	(2,118)
	<u>=====</u>	<u>=====</u>
Tax at the applicable rate of 30%	50	(635)
Tax effect of expenses not allowable for tax	278	26
Deferred tax asset not recognised (note 15)	-	609
Prior years' unrecognised deferred tax now recognised	(328)	-
	<u>-----</u>	<u>-----</u>
	-	-
	<u>=====</u>	<u>=====</u>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh 'm	2015 Sh 'm
11 TAXATION (Continued)		
(c) Taxation payable		
At start and end of the year	107 =====	107 =====

The tax payable of Sh 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 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 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 Sh 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 2014	872	13,685	324	279	254	15,414
Additions	-	-	-	-	234	234
Transfers from WIP	-	275	80	10	(365)	-
Disposals	-	-	-	(6)	-	(6)
At 31 March 2015	872	13,960	404	283	123	15,642
At 1 April 2015	905	13,927	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
DEPRECIATION						
At 1 April 2014	670	12,493	273	269	-	13,705
Charge for the year	31	426	27	4	-	488
Disposals	-	-	-	(5)	-	(5)
At 31 March 2015	701	12,919	300	268	-	14,188
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
NET BOOK VALUE						
At 31 March 2016	236	844	143	22	342	1,587
At 31 March 2015	171	1,041	104	15	123	1,454

*This relates to Premium Ash Magadi (PAM) critical spares inventory previously written off in prior period utilised in the current period.

**As at 31 March 2016 the entity had fully depreciated assets whose cost is Sh 11,990 million (2015 Sh 11,987 million) and have a notional depreciation of Sh 1,410 million (2015 Sh 1,306 million).

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh 'm	2015 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:

	2016 Sh 'm	2015 Sh 'm
Deferred tax assets:		
Unutilised tax losses	2,428	2,752
Unrealised exchange loss	418	156
Leave pay provision	16	14
General provisions	74	326
Excess depreciation over wear and tear allowance	292	308
	<hr/>	<hr/>
	3,228	3,556
Deferred tax assets not recognised*	(2,497)	(2,825)
	<hr/>	<hr/>
	731	731
	<hr/> <hr/>	<hr/> <hr/>

*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 165 million profit realised during the year ended 31 March 2016. Management has therefore considered it prudent not to recognize any additional deferred tax asset until the steps being taken yield the expected results.

As at 31 March 2016, the company had accumulated tax losses amounting to Sh 8,093,197,171 (2015: Sh 9,174,614,515) available for future tax relief. With effect from 1 January 2016, the period for the carry forward of tax losses was extended from 5 years to 10 years.

16 INVENTORY

	2016 Sh 'm	2015 Sh 'm
Raw materials and consumables	718	678
Finished goods and goods for resale	147	104
Work in progress	15	28
	<hr/>	<hr/>
	880	810
	<hr/> <hr/>	<hr/> <hr/>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 TRADE AND OTHER RECEIVABLES

	2016	2015
	Sh 'm	Sh 'm
Trade receivables	559	577
VAT receivable	617	1,092
Prepayments	203	344
Due from related parties (note 22)	224	373
Sundry receivables	176	75
	<u>1,779</u>	<u>2,461</u>

18 SHARE CAPITAL

Authorised: 2,980,000 ordinary shares of £1 each*	343	343
Issued and fully paid up: 2,727,934 ordinary shares of £1 each*	134	134

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

19 BORROWINGS

	2016	2015
	Sh 'm	Sh 'm
Loans:		
Rabo Bank International	5,978	5,448
Bank of India	101	410
Homefield Pvt UK. Limited	-	64
	<u>6,079</u>	<u>5,922</u>
Standard Chartered Bank of Kenya Limited	-	698
	<u>6,079</u>	<u>6,620</u>
The maturity profile of borrowings is as follows:		
Within one year	101	1,172
Between one and two years	-	-
Between two and five years	5,978	5,448
	<u>5,978</u>	<u>5,448</u>
	<u>6,079</u>	<u>6,620</u>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 BORROWINGS (Continued)

	2016 Sh 'm	2015 Sh 'm
The movement in loans during the year was as follows:		
At 1 April	5,922	3,991
Borrowings received	-	5,297
Borrowings repaid	(407)	(3,508)
Interest expense	411	635
Interest paid	(411)	(635)
Currency translation	564	142
	<u> </u>	<u> </u>
At 31 March	6,079	5,922
	<u>=====</u>	<u>=====</u>

The borrowings from Rabo Bank International are unsecured and are denominated in US dollars. At 31 March 2016 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\$ 1 million and are denominated in US Dollars, following the repayment of US\$ 3.4 million in the year. The facility is fully covered by VAT refunds due to the company from Kenya Revenue Authority (KRA).

The borrowings from Homefield Pvt UK Limited were unsecured and denominated in US dollars. The company fully repaid the US\$ 0.7 million in the year.

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% (2015 –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.

20 PREFERENCE SHARES

	2016 Sh 'm	2015 Sh 'm
Gusiute	3,295	3,002
Homefield Pvt UK Limited	1,003	914
	<u> </u>	<u> </u>
	4,298	3,916
	<u>=====</u>	<u>=====</u>
The movement in the carrying amount during the year was as follows:		
At 1 April	3,916	3,666
Currency translation	382	250
	<u> </u>	<u> </u>
At 31 March	4,298	3,916
	<u>=====</u>	<u>=====</u>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 PREFERENCE SHARES (Continued)

In 2012, the company issued to Gusiute Holdings (UK) Limited 32,512,408 redeemable preference shares of USD 1.0 each fully paid. In 2013 and 2014, 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>

21 TRADE AND OTHER PAYABLES

	2016 Sh 'm	2015 Sh 'm
Trade payables	838	869
Accrued expenses	1,109	1,193
Due to related parties (note 22)	82	270
Dividend payable	73	73
Other payables	58	36
	<u>2,160</u>	<u>2,441</u>

22 RELATED PARTIES TRANSACTIONS AND BALANCES

Amounts due from related companies

<i>Trade and other receivables</i>		
Tata Chemicals (SA) Limited	102	108
Tata Chemicals International Pte Ltd	78	206
Tata Chemicals Limited	44	59
	<u>224</u>	<u>373</u>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)

	2016 Sh 'm	2015 Sh 'm
Amounts due to related companies		
<i>Trade and other payables</i>		
Tata Chemicals Limited	73	135
Tata Chemicals North America Ltd	0.5	135
Tata Chemicals Europe Limited	8.5	-
	<u>82</u>	<u>270</u>

Sales to related companies

Tata Chemicals South Africa	250	186
Tata Chemicals International Pte Ltd	2,826	2,577
Tata Chemicals Limited	67	301
	<u>3,143</u>	<u>3,064</u>

Key management compensation

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

	2016 Sh 'm	2015 Sh 'm
Salaries and other short-term employment benefits	<u>46</u>	<u>66</u>

Directors' remuneration

Fees	2	3
Other emoluments (included in key management compensation above)	1	1
	<u>3</u>	<u>4</u>

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh 'm	2015 Sh 'm
23	NOTES TO THE STATEMENT OF CASH FLOWS	
(a)	Reconciliation of profit/(loss) before taxation to cash generated from/(used in) operations	
	Profit/(loss) before taxation	165
	Adjustments for:	(2,118)
	Depreciation and impairment of property, plant and equipment (note 12)	265
	Unrealised exchange loss on borrowings	564
	Unrealised exchange loss on preference shares	382
	Finance costs	386
	(Gain)/loss on disposal of fixed assets	(2)
	Critical spares written off	(88)
	Loss attributable to hedge ineffectiveness on cash flow hedges (note 8(a))	13
	Working capital changes:	
	Inventory	(70)
	Trade and other receivables	682
	Trade and other payables	(281)
	Derivative assets and liabilities	24
	<u>Cash generated from/(used in) operations</u>	<u>(433)</u>
	=====	=====
(b)	Analysis of cash and cash equivalents	
	Cash and bank balances	249
	Bank overdraft (note 19)	-
	<u>249</u>	<u>86</u>
	=====	=====
	(612)	(698)
	=====	=====
24	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.

25 CAPITAL COMMITMENTS

	2016 Sh 'm	2015 Sh 'm
Authorised and contracted for	52	656
	=====	=====
Authorised but not contracted for	168	118
	=====	=====

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh 'm	2015 Sh 'm
26 OPERATING LEASE COMMITMENTS		
Within one year	76	71
Between one and five years	-	-
	<hr/>	<hr/>
Between one and five years	76	71
	<hr/> <hr/>	<hr/> <hr/>
27 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 for 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).

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.

TATA CHEMICALS MAGADI LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 CONTINGENT LIABILITIES (Continued)

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.

28 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.

29 CURRENCY

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

Appendix

TATA CHEMICALS MAGADI LIMITED

DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2016

	2016 Sh 'M	2015 Sh 'M
COST OF SALES		
Depreciation and impairment charge	247	85
Inventory change	40	364
Power and Fuel	1,254	2,286
Professional fees	-	-
Repairs & maintenance	99	117
Stores & spares	448	220
Salaries	294	359
Other	4	(2)
	<u>2,386</u>	<u>3,429</u>
	=====	=====
DISTRIBUTION COSTS		
Salaries & wages	255	231
Freight, insurance & commission	569	519
Packaging & warehousing	161	209
Port charges	236	215
Customer claims	117	20
Transport charges	641	461
Royalties & taxes	191	122
Depreciation	90	451
Other	192	612
	<u>2,452</u>	<u>2,840</u>
	=====	=====
ADMINISTRATIVE EXPENSES		
Salaries & wages	336	480
Restructuring costs	-	883
Depreciation	39	39
Insurance	35	53
IT & communication expenses	57	17
Legal fees	6	33
Professional fees	10	144
Leasehold land	40	24
Repairs & maintenance	180	62
Stores & spares	28	39
Travelling expenses	34	21
Other	288	228
	<u>1,053</u>	<u>2,023</u>
	=====	=====