Winnington CHP Limited

Annual report and financial statements

Registered number 08568552

For the year ended 31 March 2019

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Strategic report

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activities and business review

The Company's principal activities are the generation and sale of steam and electricity.

Turnover for the year increased to £50,743,000 (2018: £48,408,000) as the Company's combined heat and power facility at Winnington performed well throughout the year.

The sudden and unexpected withdrawal of UK Capacity Market payments by the UK government, following a legal challenge and subsequent review by the EU into compliance with State Aid rules, caused an unanticipated reduction in income of approximately £600,000.

As reported last year, in January 2018 one of the Company's gas turbines failed in operation and suffered significant damage. This incident was the subject of an ongoing insurance claim and this claim was settled in full during the current year, resulting in total net receipts of £4,185,000. During the year the Company also received £335,000 in settlement of a business interruption insurance claim which arose in May 2017 as a result of a fire at the Lostock site of the Company's parent company, Tata Chemicals Europe Limited. This receipt has also been included in profit before tax for the year.

The Company's participation in the EU Emissions Trading Scheme (EUETS) has been affected significantly by the Brexit process. Under EUETS, the Company is granted free allowances each calendar year, for offset against actual emissions of carbon dioxide by the Company in the period. The process for issuing free allowances to UK companies has been suspended, pending confirmation of the terms of the UK exit from the EU. As a consequence, no free allowances for calendar year 2019 were issued prior to the balance sheet date. On 4 March 2019 the Company complied with UK and EU legislation by surrendering allowances in full in respect of the 2018 calendar year. The absence of free allowances and the advanced, Brexit-related timetable for surrendering resulted in an additional cash outflow of £581,000 and exceptional charge to the profit and loss account of £690,000.

EBITDA for the year was £9,421,000 (2018: £9,003,000). EBITDA for the year has been calculated as operating profit before exceptional operating income of £1,995,000 (2018: £nil), depreciation of £1,127,000 (2018: £1,272,000), amortisation of government grants of £121,000 (2018: £122,000) and any impairment losses, of which there were none in 2019 (2018: £625,000). The profit on ordinary activities before taxation was £10,079,000 (2018: £7,003,000), after taking into account net exceptional operating income of £1,995,000 (2018: £nil).

Future outlook

The Company is a member of a bank group ("Group") headed by Natrium Holdings Limited. As described in last year's annual report, the Group undertook a restructuring process in March 2018 and this included the refinancing of continuing operations in order to access additional long-term funds for capital investment projects focused on reducing the variable cost per tonne of manufacturing and enhancing both the safety and efficiency of operational delivery. This refinancing also enabled the Group to reduce its cost of borrowing.

The design of a carbon capture and usage plant for installation at the Company's combined heat and power plant at Winnington is now well advanced and a Government grant has been secured for approximately 25% of the cost. This plant is expected to be commissioned at the end of 2020 and will deliver significant savings in manufacturing costs.

Strategic report (continued)

The directors expect these developments to provide the Company with opportunities to increase EBITDA in the medium term as the Company's cost base is improved and the internal demand for steam and electricity increases.

Principal risks and uncertainties

The main risk to the business continues to be the medium to long-term cost of energy in the UK. This includes not just the market price of natural gas but also the impact of UK electricity market reforms, EUETS and similar carbon pricing measures. This risk has increased following the UK decision to leave the EU and the level of associated uncertainty has increased due to the lack of clarity over the timetable and process. The Group will focus on these matters over the coming year by continuing to hedge against the cost of natural gas and through active engagement with national and international decision-making bodies.

Financial risk management

The Company's operations expose it to a variety of financial risks that include interest rate risk, foreign currency risk, commodity price risk, liquidity risk, capital risk and credit risk. Further information is given in Note 26 in the financial statements. Financial risk is managed at a group level for the Tata Chemicals Europe Holdings Limited subgroup.

Key performance indicators ("KPIs")

Company performance is measured using a 'balanced scorecard' approach. At the start of each financial year the Company sets targets relating to a number of strategic themes, including safety and environmental performance, growing existing businesses, developing new businesses, delivering better value to customers, operational excellence and engaging a highly performing workforce. For each measure, the actual performance of the business is compared to the target on a regular basis and these reviews help to identify where further action is required. The directors believe that these measures represent the Company's KPIs.

By order of the board

J L Abbotts
Director
15 May 2019
Mond House, Winnington, Northwich, Cheshire, CW8 4DT

Directors' report

The directors present their annual report on the affairs of the Company, together with the audited financial statements for the year ended 31 March 2019.

Directors

The directors who served during the year, and thereafter were:

J L Abbotts
M J Ashcroft
P P Houghton

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Company has a continued commitment to communication through the use of newsletters, regular financial information and consultation meetings for workplace representatives. The Company will continue to enhance all communication channels to everyone in the Company.

Political contributions

No donations were made to any political party during the year (2018: £nil).

Environment

The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements systems to minimise adverse effects that might be caused by its activities. The Company operates in accordance with its publicly available environmental policy, which does not form part of this Report. It adheres to the conditions detailed in all relevant environmental licences and permits and any other relevant legislation or regulations covering its activities or environmental impacts. Initiatives designed and implemented to manage and reduce the Company's environmental footprint include investigating further reductions in emissions to air and water, reducing the amount of solid waste that is sent to landfill and improving energy use and efficiency.

Going concern

The directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements (Note 3.2).

Dividends

The directors do not recommend the payment of a dividend (2018: same).

Directors' report (continued)

Qualifying Third Party Indemnity Provisions

During the year, and at the date of signing this report, the Company maintained liability insurance and third party indemnification provisions for its directors, under which the Company has agreed to indemnify the directors to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the Company and any of its associated companies.

Financial Instruments

The Company's risk management objectives and policies in relation to the use of financial instruments can be found in Note 26.

Matters covered in the strategic report

Future developments are disclosed in the strategic report.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Statement of disclosure to the auditor

Each person who is a director at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

The auditors, KPMG LLP, will be proposed for re-appointment in accordance with Section 487 of the Companies Act 2006.

By order of the board

J L Abbotts
Director
15 May 2019
Mond House, Winnington, Northwich, Cheshire, CW8 4DT

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU") and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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United Kingdom

Independent auditor's report to the members of Winnington CHP Limited

Opinion

We have audited the financial statements of Winnington CHP Limited ("the Company") for the year ended 31 March 2019 which comprise the profit and loss account, the statement of other comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Independent auditor's report to the members of Winnnington CHP Limited (continued)

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Winnnington CHP Limited (continued)

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Will Baker (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Princes Parade
Liverpool
L3 1QH

31 May 2019

Profit and loss account

For the years ended 31 March

	Note	**2019**	2018
		£000	£000
Revenue	5	**50,743**	48,408
Cost of sales		**(42,049)**	(39,364)
Gross profit		**8,694**	9,044
Administrative expenses		**(2,114)**	(1,816)
Other operating income		**1,835**	-
Exceptional operating items	7	**1,995**	-
Operating profit		**10,410**	7,228
Financial income	10	**238**	388
Financial expenses	11	**(569)**	(613)
Net finance costs		**(331)**	(225)
Profit before tax	6	**10,079**	7,003
Tax expense	13	**-**	(789)
Profit after tax		**10,079**	6,214

All of the results shown above relate to continuing operations.

The Notes on pages 15 to 39 are an integral part of these financial statements.

Statement of comprehensive income

For the years ended 31 March

	Note	**2019**	2018
		£000	£000
Profit after tax		**10,079**	6,214
Items that may be reclassified subsequently to profit or loss			
Cash flow hedge gains/(losses)	12	**(5,762)**	1,872
Related tax	13	**-**	383
Other comprehensive income		**(5,762)**	2,255
Total comprehensive income		**4,317**	8,469

The Notes on pages 15 to 39 form an integral part of these financial statements.

Balance sheet
At 31 March

	Note	2019	2018
Assets		**£000**	£000
Intangible assets	14	-	146
Property, plant and equipment	15	**11,745**	8,220
Other non-current financial assets	22	**111**	226
Non-current assets		**11,856**	8,592
Trade and other receivables	17	**29,818**	15,802
Prepayments and accrued income		**149**	134
Cash and cash equivalents	16	**678**	82
Other current financial assets	22	**267**	2,867
Current assets		**30,912**	18,885
Total assets		**42,768**	27,477
Liabilities			
Government grants	19	**(1,907)**	(2,028)
Provisions	21	-	(106)
Other non-current financial liabilities	22	**(896)**	(419)
Non-current liabilities		**(2,803)**	(2,553)
Trade and other payables	18	**(32,414)**	(23,949)
Government grants	19	**(122)**	(122)
Deferred revenue	20	-	(107)
Provisions	21	**(262)**	(466)
Other current financial liabilities	22	**(2,570)**	-
Current liabilities		**(35,368)**	(24,644)
Total liabilities		**(38,171)**	(27,197)
Total net assets		**4,597**	280
Equity			
Share capital	23	-	-
Retained earnings	24	**7,687**	(2,392)
Cash flow hedging reserve	24	**(3,090)**	2,672
Shareholders' equity		**4,597**	280

Balance sheet (continued)

The Notes on pages 15 to 39 are an integral part of these financial statements.

These financial statements were approved by the board of directors on 15 May 2019 and were signed on its behalf by:

J L Abbotts
Director

Statement of changes in equity

For the years ended 31 March

	Share Capital (Note 23) £000	Retained Earnings (Note 24) £000	Cash flow hedging reserve (Note 24) £000	Total deficit £000
Balance at 1 April 2017	-	(8,606)	417	(8,189)
Profit after tax	-	6,214	-	6,214
Other comprehensive income	-	-	2,255	2,255
Total comprehensive income	-	6,214	2,255	8,469
Balance at 1 April 2018	**-**	**(2,392)**	**2,672**	**280**
Profit after tax	**-**	**10,079**	**-**	**10,079**
Other comprehensive income	**-**	**-**	**(5,762)**	**(5,762)**
Total comprehensive income	**-**	**10,079**	**(5,762)**	**4,317**
Balance at 31 March 2019	**-**	**7,687**	**(3,090)**	**4,597**

The Notes on page 15 to 39 form an integral part of these financial statements.

Statement of cash flows

For the years ended 31 March

	Note	2019 £000	2018 £000
Net cash generated from operating activities	25	**5,487**	1,847
Net cash used in investing activities			
Purchase of property, plant and equipment		**(4,651)**	(1,250)
Financing activities			
Net interest paid		**(240)**	(196)
Taxation - group relief paid		-	(407)
Net cash used in financing activities		**(240)**	(603)
Net decrease in cash and cash equivalents		**596**	(6)
Cash and cash equivalents at 1 April	16	**82**	88
Cash and cash equivalents at 31 March	16	**678**	82

Footnote:

	Note	2019 £000	2018 £000
Reconciliation of borrowings:			
Loans from related parties	27	**(15,698)**	(15,412)
Interest paid		**241**	197
Non-cash movements: Interest expense	11	**(527)**	(613)
		(286)	(416)

The Notes on page 15 to 39 form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 General information

Winnington CHP Limited (the 'Company') is a private company incorporated in England, United Kingdom, under the Companies Act. The address of the Company's registered office is Mond House, Winnington, Northwich, Cheshire, CW8 4DT.

The financial statements are presented in pounds sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise stated.

2 Changes in significant accounting policies

The Company has initially applied IFRS 9 and IFRS 15 from 1 April 2018. A number of other new standards are also effective from 1 April 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying IFRS 9 and IFRS 15, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Under the new standard, trade and other receivables and cash and cash equivalents are classified as financial assets measured at amortised cost, rather than loans and receivables as per IAS 39.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model, causing credit losses to be recognised earlier. The new ECL, as outlined in Note 3.5.7, has been applied in calculating the provision for doubtful debts and the recoverability of related party transactions. The cumulative impact on adoption of this standard has not been significant.

As a result of the adoption of IFRS 9, there have been consequential amendments to IAS 1, which require impairment losses on financial assets to be presented in a separate line item in the statement of profit or loss and OCI where material. As impairment losses on trade receivables and contract assets are not material, they have not been presented separately.

The Company has elected to adopt the new general hedge accounting model in IFRS. This requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. For details of the Company's accounting policy, see Note 3.5.3.

All hedging relationships designated under IAS 39 at 31 March 2018 met the criteria for hedge accounting under IFRS 9 at 1 April 2018 and are therefore regarded as continuing hedging relationships.

Notes (continued)

2 **Changes in significant accounting policies** (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services, which requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of applying the standard as at 1 April 2018. Accordingly, the information presented for the prior year has not been restated, although had it been restated there would not have been any significant difference.

A portfolio-based contract review has been performed to assess the impact of IFRS 15, with no changes to existing revenue recognition methods being required. Consequentially there is no impact on timing or amount of revenue recognised on adoption of the new standard. The Company's accounting policies for its revenue streams are disclosed in Note 3.6.

Standards issued but not yet effective

Of the standards that are issued but not yet effective, none are expected to have a material impact on the Company's financial statements in the period of initial application. This includes IFRS 16 (Leases), as the Company had not entered into any operating leases as at 31 March 2019.

3 **Significant accounting policies**

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

3.1 **Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. They have been prepared on a historical cost basis, except for the revaluation of financial instruments and Emissions Trading Allowances, as explained in the accounting policies below.

3.2 **Going concern**

The Company is a subsidiary of Natrium Holdings Limited. Natrium Holdings Limited and its subsidiaries (together the "Group") manage their operations on a Group-wide basis. In particular, the Group's financing and cash requirements are managed on a pooled basis with funds being allocated between companies to meet individual short and medium term requirements. Consequently, the assessment of Company's ability to continue as a going concern has been based on a review of the Group as a whole.

Notes (continued)

3 **Significant accounting policies** (continued)

3.2 **Going concern** (continued)

As at 31 March 2019 the Group was funded by a fully drawn down £80,000,000 Term Loan and £18,000,000 drawn down from a £20,000,000 revolving credit facility, both provided by Bank of America Merrill Lynch and secured by fixed and floating charges over the assets of the Group and for which Tata Chemicals Limited ("ultimate parent") is guarantor. The facilities are repayable in March 2023 and are subject to financial covenants which are tested at the level of the Tata Chemicals Limited group ("the Ultimate Parent Group") and in the event any are breached would result in such amounts owed becoming repayable on demand. In addition the Group has a short term loan of £4,500,000 from Gusiute Holdings (UK) Limited, a subsidiary of the wider group headed by the ultimate parent. The Group also has access to a trade receivables financing facility of £13,000,000 with Standard Chartered Bank of which £6,121,000 was utilised at 31 March 2019 and a reverse forfaiting facility of up to £12,000,000 with Credit Agricole Corporate and Investment Bank of which £8,764,000 was utilised at 31 March 2019.

The Company meets its day-to-day funding requirements by utilising the reverse forfaiting facility and from funding balances with fellow Group companies which amounted to a net receivable of £10,087,000 at 31 March 2019.

The directors of the Group have prepared forecasts of the Group'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 Group's facilities should be sufficient during the period. In addition following enquiries with the directors of ultimate parent company the directors of the company are satisfied that the Ultimate Parent Group will remain within covenant limits during the period.

In making their assessment the directors of the Company have also considered the net liability position of the Group. The deficit arises in part due to the pension liability associated with one of the Group's defined benefit schemes. There is a deficit recovery funding plan in place for the pension scheme and the expected cash flows have been factored into the forecasts.

The directors of Gusiute Holdings (UK) Limited have indicated that they will not seek repayment of the short term loan in the next 12 months.

The directors of the Company are confident that such funds as are necessary to enable the Company to meet its liabilities as they fall due will continue to be made available and in particular its fellow group company Natrium Holdings Limited will not seek repayment of the amounts currently due to it by the Company.

After reviewing the forecasts, considering reasonably possible uncertainties, the directors of the Company 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 directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3.3 **Intangible assets**

Emissions Trading Allowances

At the balance sheet date the Company was a participant in the European Union Emissions Trading Scheme ("EUETS"), administered in the UK by the Environment Agency.

Notes (continued)

3 **Significant accounting policies** (continued)

3.3 **Intangible assets** (continued)

Under normal conditions, in each calendar year the Company receives an allocation of free allowances which are initially recorded at fair value as an intangible asset with a corresponding deferred income balance that is released over the compliance period. Additional purchased allowances are valued at cost. At each period-end the Company estimates its outstanding obligation to surrender allowances. Where this obligation is already matched by allowances either held or purchased forward by the Company, the provision is calculated using the same cost as the allowances. To the extent that the Company has an obligation to surrender allowances in excess of allowances held or purchased forward, the provision is based on market prices at the balance sheet date.

The process for issuing free allowances to UK companies has been suspended, pending confirmation of the terms of the UK exit from the EU. As a consequence, no free allowances for calendar year 2019 were issued prior to the balance sheet date. As the Company continues to be a participant in EUETS, the year-end provision for carbon emissions has been calculated based on the assumption that free allowances in respect of the 2019 calendar year will be received in due course.

3.4 **Property, plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the cost of replacing component parts of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company derecognises the replaced part, and recognises the new part with its own associated useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit and loss account as incurred.

Depreciation is recognised so as to write off the cost or valuation of assets (other than assets under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Plant and equipment 2 to 25 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3.5 **Financial instruments**

3.5.1 **Financial assets**

The Company's financial assets include cash, trade and other receivables and derivative financial assets.

Classification

The Company classifies its financial assets as either:

- those subsequently measured at fair value (either through OCI, or through profit or loss); or
- those measured at amortised cost.

The classification depends on the Company's methodology for managing the financial assets and the contractual terms of the cash flows. Financial assets are not reclassified subsequent to their initial recognition.

Notes (continued)

3 Significant accounting policies (continued)

3.5.1 Financial assets (continued)

Measurement

At initial recognition, the Company measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. For all other financial assets, transaction costs that are directly attributable to the acquisition of the financial assets are added to the fair value measured on initial recognition.

Subsequent measurement of the asset depends on the Company's methodology for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its financial assets:

a) Amortised cost

Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Any gains or losses are recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate ('EIR') method.

b) Fair value through other comprehensive income ('FVTOCI')

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the asset's cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are recorded in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the EIR.

c) Fair value through profit or loss ("FVTPL")

Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. Any gains or losses are recognised net in profit or loss in the period in which it arises. Interest income from these financial assets is included in finance income.

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. On derecognition, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the profit and loss account.

3.5.2 Debt and equity instruments

Debt and equity instruments are classified as either equity or as financial liabilities in accordance with the substance of the contractual arrangement.

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 when the proceeds are received, net of direct issue costs.

Notes (continued)

3 **Significant accounting policies** (continued)

3.5.2 **Debt and equity instruments** (continued)

Financial liabilities

The Company's financial liabilities comprise borrowings, trade payables and other liabilities. These are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the EIR method. The EIR is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period at effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Changes to the carrying amount of a financial liability as a result of renegotiation or modification of terms that do not result in derecognition of the financial liability, are recognised in profit or loss.

The Company derecognises financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

3.5.3 Derivatives and hedging activities

In the ordinary course of business, the Company uses certain derivative financial instruments to reduce its exposure to foreign exchange on net cash transactions and commodity price fluctuations (cash flow hedges). When the Company opts to undertake hedge accounting, the Company documents, at the inception of the hedging transaction, the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows or fair values of hedged items. The Company documents its risk management objective, its strategy for undertaking various hedge transactions at the inception of each hedge relationship and how the entity will assess the effectiveness of the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the profit and loss account, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and accumulated in the hedging reserve.

Notes (continued)

3 Significant accounting policies (continued)

3.5.3 Derivatives and hedging activities (continued)

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the profit and loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

3.5.4 Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other group companies, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

3.5.5 Offsetting of financial instruments

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

3.5.6 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

3.5.7 Impairment of financial assets

The Company assesses on a forward looking basis the expected credit losses associated with its financial assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Notes (continued)

3 **Significant accounting policies** (continued)

3.6 Revenue

Sale of goods

Operating revenue is derived from the sale of electricity, steam and related services. In accordance with IFRS 15, revenue from the sale of goods is recognised only when the performance obligation is met and at an amount to which the Company expects to be entitled, which in this case is at the point of metered supply. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment to the amount of revenue originally recognised.

Interest revenue

Interest income is recognised when it is probable that the future economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is recognised using the effective interest method, with the effective interest rate being the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to that asset's net carrying amount on initial recognition.

3.7 Operating profit

Operating profit is stated before investment income and finance costs.

3.8 Tax

The tax expense or credit represents the sum of the net amount arising in respect of current and deferred tax.

Current tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax arises in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets are recognised for unutilised tax losses, unutilised tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Notes (continued)

3 Significant accounting policies (continued)

3.8 Tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

3.9 Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rate prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are subsequently retranslated at the spot rate prevailing at that date. All differences are taken to the profit and loss account.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items is recognised in line with the gain or loss of the item that gave rise to the translation difference. Translation differences on items whose gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss respectively.

3.10 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Notes (continued)

3 Significant accounting policies (continued)

3.10 Provisions (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3.11 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

3.12 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount, which is assessed on the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Company bases its impairment calculations on detailed budgets and forecasts which are prepared separately for each of the cash generating units ("CGUs") to which the Company's individual assets are allocated. These budgets and forecasts generally cover a period of five years. For subsequent periods, a long term growth rate is calculated and applied to projected future cash flows.

3.13 Reverse Forfaiting

Reverse forfaiting is a financing mechanism initiated by the Company under which a supplier sells a receivable due from the Company to a third party, for immediate settlement. As part of the arrangement, the Company benefits from an extended credit period in return for a financing charge. Where this arrangement does not result in payment terms significantly in excess of normal credit terms, does not result in the Company paying significantly increased finance charges, does not require the Company to provide additional collateral or a guarantee and does not result in the cancellation of the original invoice, the base value of the invoice continues to be recognised in trade payables. Where purchase invoices which have been subject to reverse forfaiting are outstanding at the balance sheet date, an accrual is made for unpaid financing charges.

Notes (continued)

4 Significant accounting judgments, estimates and assumptions

In preparing these financial statements, management has made judgements and estimates that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

Impairment arises when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Company's forecast for the next five years and do not include restructuring activities to which the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Taxes

Deferred tax assets are recognised for unutilised tax losses, unutilised tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Notes (continued)

4 **Significant accounting judgments, estimates and assumptions** (continued)

EUETS and Brexit

The lack of clarity surrounding the terms of the UK exit from the EU has created a climate of ongoing economic uncertainty, but with one exception this has not had a material impact. At the balance sheet date the Company was a participant in the European Union Emissions Trading Scheme ("EUETS"), administered in the UK by the Environment Agency. Under normal conditions, in each calendar year the Company receives an allocation of free allowances which are initially recorded at fair value as an intangible asset with a corresponding deferred income balance that is released over the compliance period. Additional purchased allowances are valued at cost. At each period-end the Company estimates its outstanding obligation to surrender allowances. Where this obligation is already matched by allowances either held or purchased forward by the Company, the provision is calculated using the same cost as the allowances. To the extent that the Company has an obligation to surrender allowances in excess of allowances held or purchased forward, the provision is based on market prices at the balance sheet date. The process for issuing free allowances to UK companies has been suspended, pending confirmation of the terms of the UK exit from the EU. As a consequence, no free allowances for calendar year 2019 were issued prior to the balance sheet date. As the Company continues to be a participant in EUETS, the year-end provision for carbon emissions has been calculated based on the assumption that free allowances in respect of the 2019 calendar year will be received in due course.

5 **Revenue**

All sales arise in the UK. The Company has just one segment under IFRS 8, and therefore no further detailed segmental information has been presented.

6 **Profit before tax**

Profit before tax is stated after (charging)/crediting:

	Note	**2019** **£000**	2018 £000
Depreciation of property, plant and equipment	15	**(1,127)**	(1,272)
Impairment of property, plant and equipment	15	-	(625)
Amortisation of government grants	19	**121**	122
Business interruption insurance receipts:			
- Gas turbine claim	7	**1,500**	-
- Other		**335**	-

Notes (continued)

7 Exceptional operating items

	Note	**2019 £000**	2018 £000
Insurance property damage claim		**2,685**	-
EUETS		**(690)**	-
		1,995	-

In January 2018 one of the Company's gas turbines failed in operation and suffered significant damage. This incident was the subject of an ongoing insurance claim and this claim was settled in full during the current year, resulting in total net receipts of £4,185,000 in respect of property damage (£2,685,000) and business interruption losses (£1,500,000). The net proceeds of the property damage claim have been used to replace the damaged asset.

As described in Note 4, the Company's participation in the EU Emissions Trading Scheme has been affected significantly by the ongoing and inconclusive Brexit process. On 4 March 2019 the Group complied with UK and EU legislation by surrendering carbon allowances in full in respect of the 2018 calendar year. The absence of free allowances for calendar year 2019 and the advanced, Brexit-related timetable for surrendering allowances resulted in an additional, exceptional charge for the year.

8 Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2019 £000	2018 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**(11)**	(8)

No remuneration has been paid in relation to non-audit services (2018: £nil).

9 Staff numbers and costs

There were no employees other than the directors during the current year and preceding year. No director received any remuneration for services to the Company during the year (2018: £nil).

Notes (continued)

10 Finance income

	Note	**2019**	2018
		£000	£000
Bank interest receivable		**1**	1
Interest receivable from fellow group undertakings	27	**237**	163
Net gain on financial assets/liabilities at fair value through profit or loss		**-**	224
		238	388

11 Finance costs

	Note	**2019**	2018
		£000	£000
Interest payable to fellow group undertakings	27	**(287)**	(371)
Total interest expense		**(287)**	(371)
Bank guarantee costs		**(246)**	(242)
Other finance costs		**(36)**	-
Total finance costs		**(569)**	(613)

12 Components of other comprehensive income

	2019	2018
	£000	£000
Cash flow hedges:		
Gains/(losses) arising on commodity forward contracts	**479**	490
Reclassification adjustments for gains included in profit or loss	**(6,240)**	1,382
	(5,762)	1,872

Notes (continued)

13 Tax

Amounts recognised in profit or loss	**2019 £000**	2018 £000
Current tax expense	-	(407)
Deferred tax: Origination and reversal of temporary differences	-	(382)
Tax expense reported in profit or loss	-	(789)

Amounts recognised in other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Tax effect of cash flow hedge changes in fair value	-	383
Tax expense reported in other comprehensive income	-	383

The charge for the year can be reconciled to the profit before tax as follows:

	2019 £000	2018 £000
Profit before tax	**10,079**	7,003
Tax on profit on ordinary activities at the average UK corporation tax rate for the year 19% (2018: 19%)	**(1,915)**	(1,330)
Tax effects of:		
Income not taxable for tax purposes	**23**	19
Group relief received at nil charge	**2,123**	1,689
Group relief received and charged	-	(407)
Other temporary differences	**(231)**	(760)
Tax (charge)/credit for the year	-	(789)

Notes (continued)

13 Tax (continued)

The standard rate of corporation tax applied to reported profit is 19% (2018: 19%) following the substantive enactment of the Finance Act 2017. The UK government latest legislation sets the headline rate of UK corporation tax at 19% until 31 March 2020 and 17% from 1 April 2020. The net deferred tax liability has been calculated on the basis of a rate of 17% since temporary differences are generally expected to reverse after 1 April 2020.

A potential deferred tax asset of £572,000 (2018: £550,000) for decelerated capital allowances, and a potential deferred tax asset for timing of cash element of cashflow hedges of £525,000 (2018: deferred tax liability of £220,000) has not been recognised because there is no certainty that the asset or liability with crystalise in the foreseeable future.

14 Intangible assets

	EU ETS allowances £000
Deemed cost	
At 1 April 2018	146
Granted during the year	-
Surrendered during the year	(146)
At 31 March 2019	-

Notes (continued)

15 Property, plant and equipment

	Plant and equipment £000	Assets under construction £000	Total £000
Cost			
At 1 April 2018	10,230	853	11,083
Additions	-	4,651	4,651
Disposals	(521)	-	(521)
Transfers	4,197	(4,197)	-
At 31 March 2019	**13,906**	**1,307**	**15,213**
Depreciation			
At 1 April 2018	(2,863)	-	(2,863)
Charge for the year	(1,127)	-	(1,127)
Disposals	521	-	521
At 31 March 2019	**(3,469)**	**-**	**(3,469)**
Net book value			
At 31 March 2019	**10,437**	**1,307**	**11,745**
At 31 March 2018	7,367	853	8,220

The Company tests property, plant and equipment annually for impairment, or more frequently, if there are indications that assets might be impaired. The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, revenue growth rates, operating margins and capital expenditure. The discount rate used is in line with that used by Tata Chemicals Limited, the ultimate parent company, based on the weighted average cost of capital for forecast purposes. It is anticipated that sales volumes will remain at a similar level to the current year and there will be no significant changes in selling prices or costs. The rate used to discount the forecast cash flows is 7.75% (2018: same). Sensitivity analysis on the discount rate has been performed and the Company does not expect a 1% increase or decrease in discount rate to have a material impact on the impairment review.

All property, plant and equipment is subject to a fixed charge as described in Note 22(b).

At 31 March 2019 the Company had commitments of £2,000 (2018: £17,000) relating to the purchase of property, plant and equipment.

16 Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank and in hand	**678**	82

Notes (continued)

17 Trade and other receivables

	Note	2019 £000	2018 £000
Trade receivables		**271**	1,933
Amounts due from related parties	27	**25,790**	8,230
Other taxation and social security		**240**	905
Other receivables		**3,517**	4,734
		29,818	15,802

Trade receivables are non-interest bearing and are generally on 30-60 day terms. All customers are credit checked before acceptance. As at 31 March 2019, the Company had no trade receivables that had been impaired and provided for (2018: £nil).

The Company writes off a trade receivable when there is information indicating that there is no realistic prospect of recovery from the debtor.

The ageing analysis of trade receivables was as follows:

	Total	Current	< 30 days	31-60 days	61-90 days	91-120 days	> 120 days
		£000	£000	£000	£000	£000	£000
31 March 2019	**271**	**261**	**10**	**-**	**-**	**-**	**-**
31 March 2018	1.933	1.929	-	4	-	-	-

18 Trade and other payables

	Note	2019 £000	2018 £000
Trade payables		**(9,863)**	(4,328)
Amounts owed to related parties	27	**(15,966)**	(15,412)
Other creditors		**(104)**	(61)
Accruals and deferred income		**(6,481)**	(4,148)
		(32,414)	(23,949)

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Trade payables are non-interest bearing and are typically settled 63 days following the end of the month of supply. The terms and conditions relating to related parties are described in Note 27. The directors consider that the carrying value of trade and other payables is approximately equal to the fair value.

Included within trade payables are purchase invoices totalling £8,764,000 (2018: £nil) which are subject to reverse forfaiting arrangements. Unpaid financing charges of £36,000 (2018: £nil) have been recognised in respect of these invoices.

Notes (continued)

19 Government grants

	2019 £000	2018 £000
At 1 April	**(2,150)**	(2,272)
Credited to profit and loss	**121**	122
At 31 March	**(2,029)**	(2,150)
Current	**(122)**	(122)
Non-current	**(1,907)**	(2,028)

The Company received a government eRGF grant in respect of the project to install a new steam turbine at the Company's combined heat and power facility in Winnington. At the balance sheet date there were no unfilled conditions attached to the grant. The Company is subject to a 10 year monitoring period, which commenced in March 2014, during which the grant may be repayable if certain conditions are not met. These conditions include continuous operation of the turbine and a specified Good Quality Combined Heat and Power (GQCHP) efficiency rating.

20 Deferred revenue

EUETS allowances	2019 £000	2018 £000
At 1 April	**(107)**	(131)
Received during the year	**-**	(143)
Statement of other comprehensive income	**107**	167
At 31 March	**-**	(107)

21 Provisions

Carbon emissions	2019 £000	2018 £000
At 1 April	**(572)**	(1,034)
Charged to profit and loss	**(646)**	(460)
Paid/utilised during the year	**956**	922
At 31 March	**(262)**	(572)
Non-current	-	(106)
Current	(262)	(466)

Notes (continued)

21 Provisions (continued)

The carbon emissions provision recognises the obligation to surrender allowances to the Environment Agency under the European Union Emissions Trading Scheme in respect of the first three months of the 2019 calendar year. The surrender in respect of the 2018 calendar year took place in March 2019. The surrender in respect of the 2019 calendar year is expected to take place in April 2020.

22 Other current and non-current financial assets and liabilities

a) Other financial assets

Financial instruments at fair value through other comprehensive income	**2019 £000**	2018 £000
Gas contracts for difference (amount owed from related parties)	**378**	3,093
Current	**267**	2,867
Non-current	**111**	226

b) Other financial liabilities

Financial instruments at fair value through other comprehensive income	**2019 £000**	2018 £000
Gas contracts for difference (amounts owed to related parties)	**(3,466)**	(419)
Current	**(2,570)**	-
Non-current	**(896)**	(419)

c) Hedging activities and derivatives

Commodity price risk

In accordance with the Company's risk management policy, natural gas contracts for difference are used to reduce the volatility of cash flows associated with highly probable forecast gas purchases due to the fluctuations in gas prices. As such these contracts for difference have been designated as cash flow hedges. The contracts are intended to hedge the volatility of the purchase price of gas for a period up to two years based on existing contracts of Tata Chemicals Europe Limited to supply soda ash and sodium bicarbonate to customers, and, by implication, the requirement for Tata Chemicals Europe Limited to purchase steam and electricity from the Company. The terms of the contracts match the terms of the hedged items. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the profit and loss account. The carrying value as at 31 March 2019 was an asset of £378,000 (2018: £3,093,000) and a liability of £3,466,000 (2018: £419,000).

Notes (continued)

22 Other current and non-current financial assets and liabilities (continued)

The counterparty for these contracts for difference is British Salt Limited, a fellow group undertaking. British Salt Limited enters into contracts for difference with external third parties to facilitate the hedging activities of the Company. Any gains or losses incurred by British Salt Limited are immediately recharged to the Company and all financial assets and liabilities in respect of the third party contracts are matched by equivalent amounts payable to or receivable from the Company (Note 27). The Company has presented these intercompany amounts receivable or payable on the face of the balance sheet as other financial assets and other financial liabilities, to better reflect the nature of the transaction.

d) Fair value measurement

The fair value of derivative cash flow hedges is calculated using the discounted cash flow model. Inputs include observable quoted prices sourced from exchanges or traded reference indices in active markets for identical assets or liabilities. Prices are adjusted by a discount rate which captures the time value of money and counterparty credit considerations, as required.

e) Sensitivity analysis

Gas contracts for difference

The following table details the Company's sensitivity to a 10% increase and decrease in the natural gas price per therm. The table shows the potential impact to the fair value of the gas contracts for difference held on the balance sheet:

	Asset/(liability)	
	2019	2018
	£000	£000
Based on actual price per therm	**(3,088)**	2,675
10% increase in price per therm	**60**	5,947
10% decrease in price per therm	**(6,236)**	(597)

23 Called-up share capital

The Company has one class of ordinary share with no right to a fixed income.

	2019	2018
	£	£
Authorised, issued and fully paid		
1 ordinary share of £1	**1**	1

24 Reserves

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss only when the hedged transaction impacts the profit or loss.

Retained earnings represents cumulative profits or losses net of dividends paid and other adjustments.

Notes (continued)

25 Reconciliation of profit before tax to operating cash flows

	2019 £000	2018 £000
Profit before tax	10,079	7,003
Finance income	(238)	(388)
Finance expense	569	613
Operating profit	10,410	7,228
Depreciation of property, plant and equipment	1,127	1,272
Impairment of property, plant and equipment	-	625
Amortisation of government grants	(121)	(122)
Net cash flow before movements in working capital	11,416	9,003
Increase in trade, other receivables and prepayments	(11,871)	(5,944)
Increase/(decrease) in trade and other payables	6,105	(789)
Decrease in EUETS intangible assets	146	40
Decrease in provisions	(309)	(463)
Net cash generated from operating activities	5,487	1,847

26 Financial risk management and policies

The Company's principal financial liabilities comprise loans and borrowings, trade and other payables. The Company has trade and other receivables and cash that derive directly from its operations.

The Company is exposed to interest rate risk, commodity price risk, liquidity risk, credit risk and capital risk.

The Company's senior management oversees the management of these risks, supported by an audit committee framework which extends up to the level of the ultimate parent company advises on financial risks and the appropriate financial risk governance framework for the Company. The audit committee provides assurance to the company's senior management that the Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company policies and Company risk appetite. The Company's overall strategy remains unchanged from 2018.

Notes (continued)

26 **Financial risk management and policies** (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market rates relates primarily to the group's long-term debt obligations with floating interest rates. The short-term borrowings of the Company do not have a significant fair value or cash flow interest rate risk due to their short tenure.

During the year, the Company did not enter into any interest rate hedges, however this type of risk mitigation could be considered in the future if required. No sensitivity analysis is prepared as the Company does not expect changes in the sterling LIBOR rate to have a material impact on the financial statements.

Commodity price risk

Commodity price risk is the risk that the purchase price of commodities will fluctuate. The Company's exposure relates largely to the purchase of natural gas. Where appropriate, the Company manages its commodity risk by hedging forecast purchases using contract for difference arrangements.

Liquidity risk

The Company is a member of a bank group and the group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, a revolving credit facility and debt factoring where appropriate. Bank loan agreements were renewed in March 2018 and have a term of 5 years.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The trade receivables of the Company are typically unsecured and derived from sales made to a fellow undertaking and a small number of independent customers. Credit reference agencies are used to gain ratings and provide credit recommendations. If there is no credit rating of the customers available, the Company reviews the creditworthiness of its customers based on their financial position, past experience and other factors. The credit period provided by the Company to its customers generally ranges from 0-90 days.

Capital risk management

The capital structure of the Company consists of net debt (borrowings less bank balances) and equity (issued share capital, reserves and retained earnings). Borrowings comprise mainly unsecured balances owed to fellow group undertakings who are members of the same bank group as the Company. The Company is not subject to any externally imposed capital requirements.

The Company manages its borrowings in order to ensure that it is able to continue operating as a going concern, whilst minimising the overall cost and risk to the wider bank group.

Notes (continued)

27 Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year and outstanding balances at the reporting date:

Trading transactions		**Sales to related parties £000**	**Purchases from related parties £000**	**Amounts owed by related parties £000**	**Amounts owed to related parties £000**
Companies which were part of the Natrium Holdings Limited* group					
Tata Chemicals Europe Limited	**2019**	**26,709**	-	-	-
	2018	27,888	-	-	-

Loans from related parties		**Interest charged by related party in the year £000**	**Amounts owed to related party £000**
Companies which were part of the Natrium Holdings Limited* group			
Natrium Holdings Limited*	**2019**	**(287)**	**(15,698)**
	2018	(28)	(15,412)
Companies which were part of the wider Tata Chemicals Limited group			
British Salt Limited	**2019**	-	-
	2018	(343)	-

Loans to related parties		**Interest charged to related party in the year £000**	**Amounts owed by related party £000**
Companies which were part of the Natrium Holdings Limited* group			
Tata Chemicals Europe Limited	**2019**	**237**	**25,785**
	2018	163	8,230

*Tata Chemicals Europe Holdings Limited changed its name to Natrium Holdings Limited on 17 July 2018

Notes (continued)

27 Related party transactions (continued)

Expenses and recharges		Recharges to related parties £000	Recharges from related parties £000	Amounts owed by related parties £000	Amounts owed to related parties £000
Companies which were part of the Natrium Holdings Limited* group					
Tata Chemicals Europe Limited	**2019**	**10,311**	**(2,745)**	**-**	**(2)**
	2018	655	(1,410)	-	-
Companies which were part of the wider Tata Chemicals Limited group					
British Salt Limited – operating costs	**2019**	**5**	**(5,291)**	**5**	**-**
	2018	19	-	-	-
British Salt Limited – contract for difference	**2019**	**7,612**	**(3,738)**	**378**	**(3,733)**
	2018	-	-	3,093	(419)

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding trading balances at the year end are unsecured and will be settled in cash. Interest on loans is generally charged at a rate that matches the rate paid on external loans by the loan provider. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 March 2019, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2018: £nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Transactions with key management personnel

There were no transactions with key management personnel in the year.

28 Ultimate controlling party

The Company's immediate parent undertaking is Tata Chemicals Europe Limited, a company incorporated in England.

The smallest group in which the results of the Company are consolidated is that of Natrium Holdings Limited (formerly Tata Chemicals Europe Holdings Limited), a company incorporated in England. Copies of the accounts are available from the registrar of Companies, Crown Way, Cardiff.

The ultimate parent company in the year to 31 March 2019 was Tata Chemicals Limited, a company incorporated in India. The largest group in which the results of the Company are consolidated is that of Tata Chemicals Limited. Copies of the accounts are available from the Company Secretary, Tata Chemicals Limited, Bombay House, Mumbai, India.