

Cleveland Potash Limited

Annual report and financial statements

Registered number 00915392

31 December 2015

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Strategic report

The directors present their Strategic Report for the year ended 31 December 2015.

Principal activities

The principal activity of Cleveland Potash Limited is the mining, processing and selling of the fertilisers potash and polysulphate (which is the crushed and screened form of polyhalite). The company also mines rock salt which is sold in the UK for the de-icing of roads.

Review of the business and future developments

Following a review of the potash reserves in the summer of 2015 the company revised its estimation of the reserves down to 3 years of potash production. This means that potash production is likely to finish in 2018 and the mine will transition to a polysulphate mine, with production likely to increase to 1m tonnes by 2020.

The Directors undertook an impairment review which concluded that no immediate impairment of property, plant and equipment was required but that depreciation of dedicated potash PPE will be accelerated going forward and resulting in additional annual depreciation of £7.5m in the year.

In order to remain economically viable while the transition occurs, Cleveland Potash underwent a restructure of its workforce which resulted in 195 redundancies and a reduction of 137 contractors. Most of the redundancies and contractors left during quarter 1 of 2016 which helped to reduce the cost base by £17m per annum. The company did everything possible to support those employees affected, including helping them to find alternative employment. All restructuring costs are included in this year's results.

The mine performed well during the year with both increased hoist for potash and polyhalite compared to the previous year. For potash this represented a year on year increase each year since 2009. The surface plant benefited from the increased hoist and higher KCl contents in the potash which resulted in an increased final product for potash.

Potash sales volumes were ahead of the previous year. The majority of potash sales were sold to customers in the United Kingdom and the rest of the European Union. There were also sales volumes to deep sea exports markets.

The revenue from potash sales increased due to additional sales volumes but some of the gain was offset by a deteriorated sales price. The outlook is that prices are not expected to return to prior levels or to increase significantly in the near future. The potash price was one of the main reasons affecting the company's trading performance.

Polysulphate revenues increased and sales volumes more than doubled compared to the previous year due to further market development and increased promotional activity to countries like China and Brazil. Prices remained stable in the established EU markets, despite a drop in potash prices.

Rock salt continued to be mined only at a rate needed to support the business. This salt was sold in the UK. Demand for de-icing salt was strong following the winter of 2014/15. The winter of 2015/16 was relatively mild resulting in lower than predicted demand. Demand can be markedly different from region to region and year to year dependent on the prevailing weather conditions. The winter of 2015/16 was the third-warmest for the UK in a series from 1910, behind the winters of 1989 and 2007. It was also the second wettest on record. The company continued to source de-icing grade rock salt from ICL Spain to support existing demand.

Strategic report (Continued)

Review of the business and future developments (continued)

Several big capital investments were made during the year. The main investment was the polyhalite plant, which takes the mineral from the mine through a crushing and screening process and also includes storage facilities until the mineral can be loaded onto the train, ready for despatch. The plant is now operational.

During quarter 4 the Company upgraded its SAP system under the ICL Harmonisation programme which also included a transfer of all the transactional accounting work to the ICL Shared Services Centre in Amsterdam and working under a Single Business Entity System where all finished product is sold to ICL Europe, a group company.

David Zvida, the managing director of CPL, transferred to the Shared Services centre in Amsterdam and was replaced at the start of 2016 by Marc Kirsten.

During the year the company purchased a share in a joint venture phosphate company in China. The management of this joint venture will be under the phosphate division of ICL. Costs associated with the purchase have been accounted for in 2015 company results. Also, the company has made investments in Belgium through the purchase of shares of ICL Finance Belgium NV. The acquisition was settled in cash of €63m (£44m) and the remaining part by issuance of shares to the parent entity.

Subsequent events

On the 15th of August 2016 the company announced a further restructuring of the workforce to align potash operations which was completed successfully

Following the year end, the pension deficit increased substantially as a result of falling gilt yields especially after the EU referendum held in June 2016.

In September 2016 an ICL group wide ERP project was discontinued. The company's allocation of these software costs will be substantially provided against in the 2016 financial statements (note 10).

Key performance indicators

Key performance indicators (KPIs) for the business in the current and preceding year are:

| | 2015 | 2014 |
|------------------|---------------|---------------|
| Revenue (£000) | 205,613 | 165,120 |
| Gross Margin (%) | 15.82% | 7.94% |
| Stocks (£000) | <u>19,237</u> | <u>32,863</u> |

Principal risks and uncertainties

The principal risks and uncertainties affecting the Company are primarily those associated with a deep mine operation, where difficult geological conditions may be encountered. Further details are given in note 27. In addition, as the Company supplies a commodity product which is traded on the World markets its profitability is affected by Global macro-economic factors, including demand for food.

By order of the board

RJN Zuiderwijk
Director

22nd February 2017

Directors' report

The directors present their report and financial statements for the year ended 31 December 2015.

Research and development

With regards to the polyhalite the Company continued with research and development work in the rock mechanical properties of the mineral and the mineral processing, in particular investigating the crushing, screening techniques, granulation and compaction of the mineral.

Financial instruments

The Company makes and receives payments in foreign currencies, primarily Euros and US Dollars. It is Company policy to take hedging cover to protect the sterling equivalent of these transactions.

It is Company policy to cover sales transactions (excepting those to UK Government bodies and to group companies) with credit insurance.

Cash balances are managed on a Group basis.

Dividends

No dividends were paid during the year (2014: *£nil*).

Directors

The directors who held office during the year and subsequently were as follows:

| | |
|----------------|---|
| P Baines | (resigned on 22 January 2015) |
| HD Clark | |
| SM Degen | (resigned on 23 January 2015) |
| R Marx | (resigned on 23 January 2015) |
| RJN Zuiderwijk | (appointed on 23 January 2015) |
| E Glazer | (appointed on 23 January 2015) |
| D Zvida | (appointed on 23 January 2015, resigned on 17 May 2016) |
| MM Kirsten | (appointed on 17 May 2016) |

Employees

The Company is an equal opportunity employer and opposes all forms of discrimination. It is Company policy that no employee, trainee or job applicant is discriminated against on any grounds including sex, race, colour, religious beliefs, ethnic or national origin, sexual orientation, disability or age.

Over many years the Company has introduced, developed and maintained various methods of communication aimed at achieving greater employee involvement and awareness. Regular consultative meetings are held on business and financial performance as well as general matters including safety and health, employment conditions and pensions.

The Company actively encourages and promotes the development of its employees through education and training. An apprentice training scheme is operated with 37 apprentices in training at the end of the year.

Directors' report (continued)

Political and charitable contributions

The company made no political donations nor incurred any political expenditure during the year (2014: *£nil*).

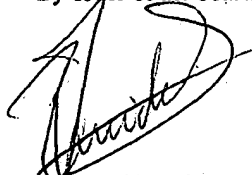
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in the office.

By order of the board



R.N. Zuidervijk
Director

Boulby Mine
Loftus
Saltburn
TS13 4UZ

22nd February 2017

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.



KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's report to the members of Cleveland Potash Limited

We have audited the financial statements of Cleveland Potash Limited for the year ended 31 December 2015 set out on pages 8 to 42. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Acceptable Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report to the members of Cleveland Potash Limited *(continued)*

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.



Paul Moran (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

23 February 2017

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 December 2015

| | <i>Note</i> | Total 2015 £000 | Total 2014 £000 |
|--|-------------|--------------------------------|--------------------------------|
| Turnover | 1,2 | 205,613 | 165,120 |
| Cost of sales | | <u>(173,077)</u> | <u>(152,010)</u> |
| Gross profit | | 32,536 | 13,110 |
| Distribution costs | | (11,405) | (11,928) |
| Administrative expenses | | (12,945) | (7,236) |
| Other operating expenses | | <u>(5,563)</u> | <u>(359)</u> |
| Operating profit/(loss) | 3-5 | 2,623 | (6,413) |
| Other interest receivable and similar income | 6 | 10,173 | 18,820 |
| Other interest payable and similar charges | 7 | <u>(11,131)</u> | <u>(18,334)</u> |
| Profit/(loss) on ordinary activities before taxation | | 1,665 | (5,927) |
| Tax | 8 | <u>2,080</u> | <u>638</u> |
| Profit/(loss) for the financial year | | <u><u>3,745</u></u> | <u><u>(5,289)</u></u> |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Remeasurements on defined benefit pension plans | 21 | 781 | (17,888) |
| Income tax on items that will not be reclassified on the profit and loss | 8 | <u>(141)</u> | <u>3,577</u> |
| Other comprehensive income for the year, net of income tax | | <u>640</u> | <u>(14,311)</u> |
| Total comprehensive income/(expense) for the year | | <u><u>4,385</u></u> | <u><u>(19,600)</u></u> |

The notes on pages 11 to 42 form an integral part of the financial statements.

All activities derive from continuing operations.

Balance sheet
at 31 December 2015

| | Note | 2015 £000 | 2014 £000 |
|--|------|------------------|------------------|
| Fixed assets | | | |
| Tangible assets | 9 | 145,004 | 139,724 |
| Intangible assets | 10 | 6,945 | 107 |
| Investments | 11 | <u>781,571</u> | <u>646,600</u> |
| | | 933,520 | 786,431 |
| Current assets | | | |
| Stocks | 13 | 19,237 | 32,863 |
| Debtors | 12 | 170,797 | 35,958 |
| Cash at bank and in hand | | <u>349</u> | <u>9,353</u> |
| | | 190,383 | 78,174 |
| Creditors: amounts falling due within one year | 16 | <u>(63,417)</u> | <u>(60,524)</u> |
| Net current assets | | <u>126,966</u> | <u>17,650</u> |
| Total assets less current liabilities | | 1,060,486 | 804,081 |
| Creditors: amounts falling due after more than one year | 19 | (348,246) | (338,842) |
| Provision for liabilities | | | |
| Other provisions | 20 | (8,346) | (8,031) |
| Pension liability | 21 | <u>(38,529)</u> | <u>(40,213)</u> |
| | | (46,875) | (48,244) |
| Net assets | | <u>665,365</u> | <u>416,995</u> |
| Capital and reserves | | | |
| Called up share capital | 22 | 66,961 | 64,747 |
| Share premium account | | 725,779 | 484,008 |
| Profit and loss account | | <u>(127,375)</u> | <u>(131,760)</u> |
| Shareholders' funds | | <u>665,365</u> | <u>416,995</u> |

The notes on pages 11 to 42 form an integral part of the financial statements.

These financial statements were approved by the board of directors on 22 February 2017 and were signed on its behalf by:


R.J.N. Guiderwijk
Director

Company registered number: 00915392

Statement of Changes in Equity
for the year ended 31 December 2015

| | Share capital £000 | Share premium £000 | Profit and loss account £000 | Total equity £000 |
|---|--------------------------|--------------------------|---------------------------------------|-------------------------|
| Balance at 1 January 2014 | 63,385 | 328,427 | (112,160) | 279,652 |
| Issue of ordinary shares | 1,362 | 155,581 | - | 156,943 |
| Loss for the year | - | - | (5,289) | (5,289) |
| Other comprehensive income (Note 22) | - | - | (14,311) | (14,311) |
| Total comprehensive income for the year | - | - | (19,600) | (19,600) |
| Balance at 31 December 2014 | 64,747 | 484,008 | (131,760) | 416,995 |
| | Share capital £000 | Share premium £000 | Retained earnings £000 | Total equity £000 |
| Balance at 1 January 2015 | 64,747 | 484,008 | (131,760) | 416,995 |
| Issue of ordinary shares | 2,214 | 241,771 | - | 243,985 |
| Profit for the year | - | - | 3,745 | 3,745 |
| Other comprehensive income (Note 22) | - | - | 640 | 640 |
| Total comprehensive income for the year | - | - | 4,385 | 4,385 |
| Balance at 31 December 2015 | 66,961 | 725,779 | (127,375) | 665,365 |

Notes

(forming part of the financial statements)

1 Accounting policies

Cleveland Potash Limited (the "Company") is a company incorporated and domiciled in the UK.

The Company's ultimate parent undertaking, Israel Chemicals Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Israel Chemicals Limited are prepared in accordance with International Financial Reporting Standards and are available to the public on their website at www.icl-group.com.

These financial statements are presented in Great British Pounds, which is the Company's functional currency, rounded to the nearest thousand.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for the share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Israel Chemicals Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payment in respect of group settled share based payments;
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Notes (continued)

1 Accounting policies (continued)

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

Measurement convention

The financial statements are prepared on the historical cost basis except for derivative financial instruments which are classified as fair value through the profit or loss.

Going concern

The company meets its day to day working capital requirements through its cash, bank overdraft and group interest bearing loans and borrowings and has recorded a profit after tax of £3,745,000. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company is expected to have a sufficient level of financial resources available through current facilities and therefore the directors believe that the Company is well placed to manage its business risks successfully. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to prepare the financial statements on a going concern basis.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of 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 accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 20 – life of mine and provisions

Note 11 – impairment of investments

Note 21 – retirement benefit obligations

Note 9 – Impairment of property, plant and equipment.

Notes (continued)

1 Accounting policies (continued)

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on transactions are recognised in the income statement. Non-monetary assets and liabilities that are measured in the terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Derivative financial instruments

Financial instruments also include derivative financial instruments (derivatives) such as foreign currency rate forward contracts in order to protect the Company from the risk that eventual cash flows resulting from existing assets and liabilities will be affected by change in exchange rates. Derivatives are measured at fair value with recognition of all changes in value in the profit and loss account. The fair value of forward exchange contracts is based on the quoted market price, if available. If no quoted market price is available, the fair value is determined on the basis of the expected cash flows discounted at the current interest rates, including a margin for discounting the relevant risks.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash at bank and in hand, loans and borrowings, and trade and other payables.

Investments in subsidiary undertakings

Investments in jointly controlled entities, associates and subsidiaries are carried at cost less impairment.

Notes (continued)

1 Accounting policies (continued)

Non-derivative financial instruments (continued)

Debtors

Debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. It is company policy to cover sales transactions (excluding those to UK Government bodies and group companies) with credit insurance. This company policy has been applied until the end of September 2015 and going forward does not apply due to the change of business strategy. From first of October, Cleveland Potash Limited only sells to group companies. The consideration in respect of the debtors sold under the Group securitisation agreement is accounted for as a sale of the debtors and the related debtors are derecognised. Amounts received from customers in respect of sold debtors are shown in current payables until such time as the monies are paid over to the provider of the securitisation agreement.

Creditors

Creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash at bank and in hand

Cash at bank and in hand comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash at bank and in hand for the purpose of only of the cash from statement. Cash at bank and in hand comprise cash balances, which are managed on a Group basis.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Fixed tangible assets

Recognition and measurement

Fixed tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of fixed tangible assets have different useful lives, they are accounted for as separate items of fixed tangible assets.

Gains and losses on disposal of an item of fixed tangible assets are determined by comparing the proceeds from disposal with the carrying amount of the fixed tangible assets, and are recognised net in profit and loss.

Notes (continued)

1 Accounting policies (continued)

Fixed tangible assets (continued)

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of fixed tangible assets. Leased assets are depreciated over the shorter of the lease term and the assets' estimated useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Own land is not depreciated.

Buildings and plant considered to have lives equivalent to the life of the ore body are depreciated over the life of the mine based on the geological assessment of the expected recoverable ore reserves. Other assets are depreciated over periods of 3-10 years.

Mine development costs are capitalised and depreciated over the life of the mine (Note 9).

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised on the Company's balance sheet.

Government grants

In line with the charges for depreciation, grants in respect of capital expenditure are credited to the profit or loss over the estimated useful working lives of the related assets.

Intangible assets and goodwill

Software costs

Computer software purchased by the Company is stated at cost less amortisation and accumulated losses from impairment.

Exploration costs

Pre-exploration expenditure is recognised as an expense as incurred. Expenditure incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable are capitalised as intangible assets in accordance with IFRS 6. The Company ceases to capitalise exploration and evaluation costs as intangible assets and transfers the assets to tangible fixed assets when management are able to ascertain the technical feasibility and commercial viability of the mineral resource.

Other intangibles

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Notes (continued)

1 Accounting policies (continued)

Intangible assets and goodwill (continued)

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

Stocks

Stocks are stated at the lower of cost and net realisable value. The cost of raw material and finished product stocks is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. This cost includes an appropriate share of production overheads based on normal operating capacity.

The cost of the consumables inventory is determined according to the “moving average” method.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Impairment

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Material financial assets are tested for impairment on an individual basis and all impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to the event occurring after the impairment loss is recognised. The reversal is recognised in profit and loss.

ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets (the “cash-generating unit”).

Notes (continued)

1 Accounting policies (continued)

Impairment (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

For investments in subsidiary undertakings, the value in use is based on the present value of the subsidiary undertaking's estimated cash flows.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of the future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in the future contributions to the plan.

An economic benefit is available to the Company if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss. The Company recognises all actuarial gains and losses arising from defined benefit plans directly in equity immediately.

All actuarial gains and losses as at 1 January 2008, the date of transition to Adopted IFRSs, were recognised. In respect of actuarial gains and losses that arise subsequently to 1 January 2008 the Company recognises them in the period they occur directly into equity through the statement of comprehensive income.

Notes (continued)

1 Accounting policies (continued)

Employee benefits (continued)

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Reclamation

A provision is made for the eventual reclamation of the Company's Boulby site based on the estimated cost at the balance sheet date as discounted in recognition of the estimated future settlement of this obligation. The charges to profit or loss build the provision to the estimated discounted future settlement obligation. The charges to profit or loss build the provision to the estimated discounted future settlement obligation. The estimated date of settlement is based on a geological estimate of reserves which determines the life of the mine.

Changes in the measurement of the liability that result from changes in the estimated timing or amount of the cash flow, or a change in the discount rate, are added to, or deducted from, the cost of the related asset. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the profit or loss. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed.

Turnover

Sale of goods

Turnover from the sale of goods is measured at fair value of the consideration received or receivable, net of returns, trade discounts and rebates. Turnover is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of turnover can be measured reliably. From October 2015 a "take or pay" agreement takes place between the Company and ICL Europe Cooperatief U.A. This means, that ICL Europe Cooperatief U.A. has agreed to take the product from the Company at a certain price or to pay the Company compensation if the purchase is not exercised. Under this agreement turnover is recognised when the goods are transported from the Company's site to the external warehouses. This agreement is based on the arms-length principle for intercompany goods transfer.

Commissions

When the Company acts in the capacity of an agent rather than as a principal in a transaction, the revenue recognised is the net amount of commission made by the Company.

Notes (continued)

1 Accounting policies (continued)

Expenses

Operating lease payments

Payments made under operating lease are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on remaining balance of the liability.

Financing income and expenses

Financing expenses comprise interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in profit or loss (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit or loss on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Emission rights

Carbon emission allowances are recorded at their acquisition cost. Obligations to deliver allowances are recorded at the average carrying value of the allowances held to meet such obligations. Where the obligation to deliver a number of allowances exceeds the number of allowances held then provision is made at the prevailing market rate. Where surplus allowances are sold the difference between the sale proceeds and the carrying value is taken to profit or loss.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit or loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Notes (continued)

2 Turnover

Substantially all turnover arose from the principal activity of the company which is considered to represent only one operating segment.

Geographical analysis of turnover by destination:

| | 2015 £000 | 2014 £000 |
|---------------------------|----------------|----------------|
| United Kingdom | 64,042 | 77,740 |
| European Union outside UK | 109,357 | 54,908 |
| Rest of World | 32,214 | 32,472 |
| Total turnover | <u>205,613</u> | <u>165,120</u> |

With effect from 1 October 2015 all revenue is to fellow group undertakings.

3 Expenses and auditor's remuneration

Included in operating profit/(loss) are the following:

| | 2015 £000 | 2014 £000 |
|---|-------------------|-------------------|
| Depreciation of tangible fixed assets | 15,692 | 12,697 |
| Amortisation of intangible assets | 7 | 22 |
| Hire of plant and machinery | 1,785 | 1,197 |
| Operating lease charge for land and buildings | 451 | 988 |
| Research and development expenses as incurred | 555 | 55 |
| | <u> </u> | <u> </u> |

Auditor's remuneration:

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Audit of these financial statements | 23 | 22 |
| Amounts receivable by the auditors and their associates in respect of: | | |
| Audit related assurance services | 32 | 32 |
| Other services relating to taxation | 61 | 80 |
| Other services pursuant to legislation | <u>-</u> | <u>1</u> |

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

| | Number of employees | |
|--|---------------------|--------------|
| | 2015 | 2014 |
| Production | 909 | 918 |
| Administration, sales and distribution | 105 | 125 |
| | <u>1,014</u> | <u>1,043</u> |

The aggregate payroll costs of these persons were as follows:

| | 2015 | 2014 |
|---|---------------|---------------|
| | £000 | £000 |
| Wages and salaries | 50,490 | 47,624 |
| Social security costs | 4,675 | 4,722 |
| Contributions to defined contribution pension plans (Note 21) | 2,396 | 1,666 |
| Expenses related to defined benefit plans (Note 21) | <u>5,531</u> | <u>4,480</u> |
| | <u>63,092</u> | <u>58,492</u> |

5 Directors' remuneration

| | 2015 | 2014 |
|-----------------------|------------|------------|
| | £000 | £000 |
| Directors' emoluments | <u>480</u> | <u>360</u> |

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £261,167 (2014: £170,316).

| | Number of directors | |
|---|---------------------|----------|
| | 2015 | 2014 |
| Retirement benefits are accruing to the following number of directors under: | | |
| Defined benefit schemes | <u>1</u> | <u>1</u> |
| The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was | <u>1</u> | <u>1</u> |

A number of employees in the Company (including 1 (2014: 1) directors) were granted share options in the ultimate parent undertaking as part of long term incentive plan. No share based payment charge is included in these financial statements in respect of these share options as the directors consider both the qualitative and quantitative impact of these share based payments to be immaterial in the context of these financial statements. Full details of share options can be found in the financial statements of the ultimate parent undertaking.

Notes (continued)

6 Other interest receivable and similar income

| | 2015 £000 | 2014 £000 |
|--|---------------|---------------|
| Interest income on unimpaired financial assets | 10,173 | 18,208 |
| Net foreign exchange gain | - | 612 |
| | <u>10,173</u> | <u>18,820</u> |

7 Interest payable and similar charges

| | 2015 £000 | 2014 £000 |
|--|---------------|---------------|
| Total interest expense on financial liabilities measured at amortised cost | 9,499 | 16,128 |
| Unwinding of discount on provisions (Note 20) | 315 | 1,842 |
| Net foreign exchange loss | 950 | - |
| Interest on securitised borrowings | 355 | 346 |
| Bank charges | 12 | 18 |
| Total finance expense | <u>11,131</u> | <u>18,334</u> |

8 Taxation

Recognised in the profit and loss account:

| | 2015 £000 | 2014 £000 |
|---|----------------|----------------|
| Current tax expense | | |
| Group relief receivable for the year | (239) | (1,143) |
| Adjustments for prior years | (140) | (563) |
| Current tax credit | <u>(379)</u> | <u>(1,706)</u> |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 443 | 759 |
| Adjustment for prior years | (2,727) | 309 |
| Reduction in DTA as result of reduction of tax rate | 583 | - |
| Deferred tax expense | <u>(1,701)</u> | <u>1,068</u> |
| Tax credit in the profit and loss account | <u>(2,080)</u> | <u>(638)</u> |

Notes *(continued)*

8 Taxation *(continued)*

Income tax recognised in other comprehensive income

| | 2015 | 2014 |
|---|------|---------|
| | £000 | £000 |
| Remeasurements on defined benefit pension plans | 141 | (3,577) |

Reconciliation of effective tax rate

| | 2015 | 2014 |
|--|---------|---------|
| | £000 | £000 |
| Profit/ (loss) for the year | 3,745 | (5,289) |
| Total tax credit | (2,080) | (638) |
| Loss excluding taxation | 1,665 | (5,927) |
| Tax using the UK corporation tax rate of 20.25% (2014: 21.5%) | 337 | (1,274) |
| Other timing of differences | 464 | 759 |
| Non-deductible expenses | 3,741 | 7,051 |
| Tax exempt revenues | (5,392) | (8,034) |
| Overprovided in prior years | (2,867) | (254) |
| Loss surrendered | (239) | (1,143) |
| Share of profit of subsidiaries | 1,293 | 2,257 |
| Reduction on deferred tax balances as an increase of tax rates | 583 | - |
| Total tax credit | (2,080) | (638) |

Factors affecting the current and total tax charges

A reduction in the UK corporation tax rate from 23% to 21% (effective 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reduction to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 8 July 2015. The deferred tax assets and liabilities are calculated using the rate of 18%.

Notes (continued)

9 Tangible fixed assets

| | Land and buildings £000 | Plant and equipment £000 | Mining works £000 | Under construction £000 | Total £000 |
|----------------------------------|-------------------------------|--------------------------------|-------------------------|-------------------------------|----------------|
| Cost | | | | | |
| Balance at 1 January 2015 | 12,137 | 202,253 | 28,129 | 37,786 | 280,305 |
| Additions | - | - | 22 | 20,950 | 20,972 |
| Transfers | - | 33,143 | - | (33,143) | - |
| Reclassification | 19,530 | 8,621 | (28,151) | - | - |
| Disposals | - | (4,577) | - | - | (4,577) |
| Balance at 31 December 2015 | <u>31,667</u> | <u>239,440</u> | <u>-</u> | <u>25,593</u> | <u>296,700</u> |
| Depreciation | | | | | |
| Balance at 1 January 2015 | 11,762 | 115,439 | 13,380 | - | 140,581 |
| Depreciation charge for the year | 24 | 15,668 | - | - | 15,692 |
| Disposals | - | (4,577) | - | - | (4,577) |
| Reclassification | 16,009 | (2,629) | (13,380) | - | - |
| Balance at 31 December 2015 | <u>27,795</u> | <u>123,901</u> | <u>-</u> | <u>-</u> | <u>151,696</u> |
| Net book value | | | | | |
| At 1 January 2015 | 375 | 86,814 | 14,749 | 37,786 | 139,724 |
| At 31 December 2015 | <u>3,872</u> | <u>115,539</u> | <u>-</u> | <u>25,593</u> | <u>145,004</u> |

The cost of fully depreciated assets included above under plant and equipment is £58.8m (2014: £44.2m).

Capital expenditure amounting to £4.8m (2014: £10.2m) has been contracted for but is not provided for in these financial statements. A further £7.8m (2014: £19.1m) has been authorised but not yet contracted for.

Following a review of Potash reserves in the summer of 2015 the company revised its estimation of the reserves down to three years of potash production. The directors undertook an impairment review which concluded that no impairment of property, plant and equipment was required but that depreciation will be accelerated going forward and this resulted in additional depreciation of £7.5m in the 2015 year.

Post balance sheet events

Subsequent to the year end in Q3 2016 property, plant and equipment relating to potash mining was impaired following an incident at the mine (note 27).

Notes (continued)

10 Intangible assets

| | Software costs £000 | Exploration costs £000 | Total £000 |
|-----------------------------|---------------------------|------------------------------|---------------|
| Cost | | | |
| Balance at 1 January 2015 | 1,959 | 98 | 2,057 |
| Additions | 6,867 | - | 6,867 |
| Disposals | - | (22) | (22) |
| Balance at 31 December 2015 | <u>8,826</u> | <u>76</u> | <u>8,902</u> |
| Amortisation | | | |
| Balance at 1 January 2015 | 1,946 | 4 | 1,950 |
| Amortisation for the year | <u>4</u> | <u>3</u> | <u>7</u> |
| Balance at 31 December 2015 | <u>1,950</u> | <u>7</u> | <u>1,957</u> |
| Net book value | | | |
| 1 January 2015 | <u>13</u> | <u>94</u> | <u>107</u> |
| At 31 December 2015 | <u>6,876</u> | <u>69</u> | <u>6,945</u> |

Amortisation charge

The amortisation charge is recognised in cost of sales in the profit and loss account.

Post balance sheet event

The software costs relate to the ICL Group wide implementation of a global ERP project (the Harmonization Project). In September 2016, the ICL group decided to discontinue this project primarily in light of substantial risks relating to the readiness of the system and its future costs. The software costs above will be substantially provided against in the 2016 accounting period.

Notes (continued)

11 Fixed asset investments

The Company has the following investments in subsidiaries (*Indirectly held):

| | Country of incorporation | Class of shares held | Ownership | |
|---|--------------------------|----------------------|-----------|-------|
| | | | 2015 | 2014 |
| ICL UK (Sales) (formerly known as ICL Iberia Limited) | UK | Ordinary | 100% | 100% |
| ICL Iberia Limited SCA (formerly known as ICL Iberia Limited SCS) | Spain | Ordinary | 99.9% | 99.9% |
| ICL Fosfatos y Aditivos de Mexico, S.A. de C.V. | Mexico | Ordinary | 0.01% | 0.01% |
| Everris Limited | UK | Ordinary | 100% | 100% |
| Amega Sciences Holdings Limited | UK | Ordinary | 100% | 100% |
| Amega Sciences Plc* | UK | Ordinary | 100% | 100% |
| Nutrient Sciences Limited* | UK | Ordinary | 100% | 100% |
| Service Chemicals Limited* | UK | Ordinary | 100% | 100% |
| ICL Finance Belgium NV | Belgium | Ordinary | 100% | - |
| ICL (Shanghai) Investment Co Ltd | China | Ordinary | 82.4% | - |
| ICL (Qingdao) Hi Tech CRF Co.,Ltd. | China | Ordinary | 100% | - |
| ICL (Qingdao) Hi Tech WSF Co.,Ltd. | China | Ordinary | 100% | - |
| Yunnan Phosphate Haikou Co Ltd | China | Ordinary | 50% | - |
| Yunnan ICL YTH Research & Technology Center Co Ltd | China | Ordinary | 25% | - |
| Yunnan Three Circles Chemicals Co Ltd.* | China | Ordinary | 50% | - |
| Yunnan BK Giulini Tianchuang Phosphate Co. Ltd* | China | Ordinary | 50% | - |
| Yunnan Tianchuang Science & Technology Co. Ltd* | China | Ordinary | 50% | - |

ICL Iberia Limited SCS was a limited liability partnership formed under Spanish law. At the end of 2015 the legal form of ICL Iberia SCS was changed in Spain, such that it became an SCA (Sociedad Comanditaria por Acciones). At a very high level, this has meant that a partnership represented by members partnership capital (SCS) has become a partnership with share capital (SCA).

Before October 2015 ICL UK (Sales) (formerly known as ICL Iberia Limited) was a company whose sole activity was to hold the remaining 0.1% of the capital of ICL Iberia Limited SCS. The name change is driven due to the addition of sales, marketing and distribution activities in the company that started from 1 October 2015.

During 2015 the Company invested \$214m (£139m) in new joint ventures in China. Those companies are innovation and technology led, specialising in technologies to explore and beneficiate phosphate rock, produce and sale phosphate based fertilisers.

In August 2015 the Company acquired a 100% shareholding of ICL Finance Belgium NV from the parent entity for a total consideration of €406m (£288m), settled in cash of €63m (£44m) and the remaining part by issuance of shares to the parent entity. In December 2015 ICL Finance Belgium NV reduced its share capital by €349m (£254m) and returned the equity back to the Company in cash. The company's main activity is financing the other group companies.

Notes (continued)

11 Fixed asset investments (Continued)

| | Loans to group undertakings £000 | Shares in group undertakings £000 | Total £000 |
|-------------------------------------|--|---|----------------|
| Cost | | | |
| Balance at 1 January 2015 | 352,359 | 494,206 | 846,565 |
| New shares acquired | - | 427,255 | 427,255 |
| Return of equity to the shareholder | - | (254,368) | (254,368) |
| Settlement of loans | (17,628) | - | (17,628) |
| Interest capitalised | 194 | - | 194 |
| Exchange differences | (20,482) | - | (20,482) |
| Balance at 31 December 2015 | 314,443 | 667,093 | 981,536 |
| Impairment | | | |
| Balance at start and end of year | - | 199,965 | 199,965 |
| Net book value | | | |
| At 31 December 2014 | 352,359 | 294,241 | 646,600 |
| At 31 December 2015 | 314,443 | 467,128 | 781,571 |

The directors have conducted a review of the carrying value of the Company's investments in subsidiary undertakings. Where the estimated recoverable value of the Company's investments was less than its carrying value an impairment charge has been recorded.

Recoverable amounts are based on the value in use cash flows of the subsidiary undertakings and the key assumptions applied in the value in use calculation include a discount rate of 9.5% and approved cashflow forecasts to 31 December 2020.

An impairment charge of £199,965,000 was recognised in 2013. It related entirely to the Company's investment in ICL Iberia Limited SCS, which is based in Spain. The impairment arose from the fall in worldwide potash prices and has led to a decrease in the estimated value in use of ICL Iberia SCS and therefore an impairment provision was booked in 2013. ICL is committed to significant investment in the Spanish operations over the next few years. The impairment provision booked in 2013 is reversible in future periods if conditions change.

The loans to group undertakings represent a loan of €405.9m and a loan of £16.4m. €256.3m is not repayable before 22 December 2018 and bears interest at 3.2% above six month Euribor. €123m is not repayable before 31 December 2018 and bears interest at 2.6% above six month Euribor. €26m is not repayable before 31 December 2018 and bears interest at 2.6% above six month Euribor. €0.6m is not repayable before 31 December 2018 and bears interest at 3.0% above 1 year Euribor. £16.2m is not repayable before 31 December 2015 and bears interest at 1.75% above six month Libor.

Notes (continued)

12 Debtors

| | 2015 | 2014 |
|--|----------------|---------------|
| | £000 | £000 |
| Amounts owed by fellow subsidiary undertakings | 157,313 | 11,586 |
| Trade debtors | 5,325 | 13,895 |
| Other debtors | 72 | 3,426 |
| Prepayments | 699 | 890 |
| Other financial assets (Note 14) | 19 | 264 |
| Deferred tax asset (Note 15) | 6,558 | 4,998 |
| Tax receivable | 811 | 900 |
| | <u>170,797</u> | <u>35,959</u> |

13 Stocks

| | 2015 | 2014 |
|-------------------------------|---------------|---------------|
| | £000 | £000 |
| Raw materials and consumables | 16,193 | 11,343 |
| Finished goods | 3,044 | 21,520 |
| | <u>19,237</u> | <u>32,863</u> |

All amounts included within stocks are expected to be recovered in less than 12 months.

Raw materials, consumables and changes in finished goods recognised as cost of sales in the year amounted to £54m (2014: £86m).

14 Other financial assets

| | 2015 | 2014 |
|---|----------|------------|
| | £000 | £000 |
| Current | | |
| Financial assets designated as fair value through profit or loss (Note 12) | 19 | 264 |
| Financial liabilities designated as fair value through profit or loss (Note 16) | (18) | - |
| | <u>1</u> | <u>264</u> |

The above comprise forward currency exchange contracts.

Notes (continued)

15 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|--------------------------|----------------|----------------|-------------|--------------|----------------|----------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Tangible fixed assets | - | - | 767 | 3,269 | 767 | 3,269 |
| Employee benefits | (6,935) | (8,043) | - | - | (6,935) | (8,043) |
| Other | (200) | (277) | (190) | 53 | (390) | (224) |
| Tax (assets)/liabilities | <u>(7,135)</u> | <u>(8,320)</u> | <u>577</u> | <u>3,322</u> | <u>(6,558)</u> | <u>(4,998)</u> |

Movement in deferred tax during the year

| | 1 January 2015 | Recognised in income | Recognised in equity | 31 December 2015 |
|-----------------------|----------------|----------------------|----------------------|------------------|
| | £000 | £000 | £000 | £000 |
| Tangible fixed assets | 3,269 | (2,502) | - | 767 |
| Employee benefits | (8,043) | 967 | 141 | (6,935) |
| Other | (224) | (166) | - | (390) |
| | <u>(4,998)</u> | <u>(1,701)</u> | <u>141</u> | <u>(6,558)</u> |

Movement in deferred tax during the prior year

| | 1 January 2014 | Recognised in income | Recognised in equity | 31 December 2014 |
|-----------------------|----------------|----------------------|----------------------|------------------|
| | £000 | £000 | £000 | £000 |
| Tangible fixed assets | 2,446 | 823 | - | 3,269 |
| Employee benefits | (4,810) | 344 | (3,577) | (8,043) |
| Other | (125) | (99) | - | (224) |
| | <u>(2,489)</u> | <u>1,068</u> | <u>(3,577)</u> | <u>(4,998)</u> |

Notes *(continued)*

16 Creditors: amounts falling due within one year

| | 2015 | 2014 |
|---|---------------|---------------|
| | £000 | £000 |
| Amounts due to group companies | 31,146 | 31,376 |
| Trade creditors | 7,344 | 7,334 |
| Other creditors and accrued expenses | 21,740 | 8,824 |
| Other financial liabilities (Note 14) | 18 | - |
| Bank loans and overdrafts | - | 6,280 |
| Deferred government grants (Note 18) | 183 | 183 |
| Interest bearing loans and borrowings (Note 17) | 2,986 | 6,527 |
| | <u>63,417</u> | <u>60,524</u> |

17 Interest bearing loans and borrowings

The note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to foreign currency risk, see Note 23.

| | 2015 | 2014 |
|---|----------------|----------------|
| | £000 | £000 |
| Creditors falling due after more than one year | | |
| Loan from fellow group undertaking | <u>343,807</u> | <u>335,666</u> |
| | 2015 | 2014 |
| | £000 | £000 |
| Creditors falling due within one year | | |
| Securitisation advances | <u>2,986</u> | <u>6,527</u> |

Notes (continued)

17 Interest bearing loans and borrowings (continued)

Loans from fellow group undertakings represent a total loan of €405.3m (2014: €430.8m). During 2015 €25.5m were repaid by the Company in cash. Of the remaining amount €256.3m is not repayable before 31 December 2018 and bears interest at 3.0% above six month Euribor and €149m is not repayable before 31 December 2018 and bears interest at 2.20% above six month Euribor. These loans are subordinated in all respect to the company's obligations for employee retirement benefits. Of the above amounts £nil falls due for the settlement after more than five years (2014: £nil).

In August 2015 in order to make the investment in ICL Finance Belgium NV the Company was financed by the fellow group undertaking for the total amount of £44.2m (€63m). The loan is not repayable before 1 August 2020 and bears interest at 2.0% above 12 month Euribor

In order to make the investments in Chinese subsidiaries the Company was financed by the fellow group undertaking for the total amount of £141m in September and October 2015. In December 2015 the Company repaid the full amount of £141m in cash received from the reduction of equity by ICL Finance Belgium NV (see Note 11).

Until the 30th of September the company, along with several fellow subsidiary undertakings, has entered into an agreement involving the sale of trade receivables, on a non-recourse basis, under a securitisation transaction. The agreement allows the company to receive cash on a revolving basis from the sale of eligible receivables. The securitisation advances represent receipts received by the Company against these debts and therefore owed to the securitisation provider. From first of October as the business strategy has changed, the company only sells to group companies. Therefore, securitisation process does not take place from October 2015.

Terms and debt repayment schedule

| | Currency | Nominal interest rate | Year of maturity | Face value 2015 € 000 | Carrying amount 2015 €000 | Face value 2014 € 000 | Carrying amount 2014 €000 |
|------------------------------|----------|-----------------------------|------------------|--------------------------|------------------------------|--------------------------|------------------------------|
| Loan from group undertaking | € | 3.0% above 6 month Euribor | 2018 | 256,300 | 188,182 | 281,800 | 219,571 |
| Loans from group undertaking | € | 2.2% above 6 month Euribor | 2018 | 149,000 | 109,400 | 149,000 | 116,095 |
| Loans from group undertaking | € | 2.0% above 12 month Euribor | 2020 | 62,957 | 46,225 | - | - |
| | | | | <u>468,257</u> | <u>343,807</u> | <u>430,800</u> | <u>335,666</u> |

Notes (continued)

18 Deferred government grants

| | 2015 £000 | 2014 £000 |
|--------------------------|--------------|--------------|
| At 1 January | 3,359 | 3,542 |
| Received during the year | 1,446 | - |
| Released during the year | (183) | (183) |
| At 31 December | <u>4,622</u> | <u>3,359</u> |
| Current | 183 | 183 |
| Non-current | <u>4,439</u> | <u>3,176</u> |
| | <u>4,622</u> | <u>3,359</u> |

The grants are for various capital projects and are amortised over the expected useful life of the related projects.

19 Creditors: amounts falling due in more than one year

| | 2015 £000 | 2014 £000 |
|---|----------------|----------------|
| Interest bearing loans and borrowings (Note 17) | 343,807 | 335,666 |
| Deferred government grants (Note 18) | 4,439 | 3,176 |
| | <u>348,246</u> | <u>338,842</u> |

20 Reclamation provision

| | £000 |
|-----------------------|--------------|
| At 1 January 2014 | 6,189 |
| Unwinding of discount | 1,842 |
| At 31 December 2014 | <u>8,031</u> |
| At 1 January 2015 | 8,031 |
| Unwinding of discount | 315 |
| At 31 December 2015 | <u>8,346</u> |

A provision is made for the eventual reclamation of the Company's Boulby site based on the estimated cost at the balance sheet date as discounted in recognition of the estimated future settlement of this obligation. The charges to profit or loss build the provision to the estimated discounted future settlement obligation. The estimated date of settlement is based on a geological estimate of reserves.

The unwinding of the discount of £315,000 (2014: £1,842,000) has been charged to finance expenses.

Notes (continued)

21 Pension liabilities

Defined benefit plans

The Company operates two defined benefit pension plans in the UK. Both plans are closed to new members, who are instead eligible for a defined contribution arrangement to which the Company contributes. The payments to beneficiaries up to the total amount of £30m are guaranteed by the parent company.

| | 2015 | 2014 |
|-----------------------------|-----------------|-----------------|
| | £000 | £000 |
| Defined benefit obligations | (230,293) | (230,816) |
| Fair value of plan assets | 191,764 | 190,603 |
| Total pension liabilities | <u>(38,529)</u> | <u>(40,213)</u> |

Changes in the present value of the defined benefit obligation are as follows:

| | 2015 | 2014 |
|--|----------------|----------------|
| | £000 | £000 |
| At 1 January | 230,816 | 200,506 |
| Current service cost | 4,193 | 3,510 |
| Interest cost | 8,172 | 9,067 |
| Remeasurements: | | |
| Effect of changes in demographic assumptions | - | (5,016) |
| Effect of changes in financial assumptions | (5,273) | 29,153 |
| Effect of experience adjustments | - | 684 |
| Benefits paid | <u>(7,315)</u> | <u>(7,088)</u> |
| At 31 December | <u>230,293</u> | <u>230,816</u> |

Changes in the fair value of plan assets are as follows:

| | 2015 | 2014 |
|-----------------------------|----------------|----------------|
| | £000 | £000 |
| At 1 January | 190,603 | 176,459 |
| Net interest on plan assets | 6,834 | 8,097 |
| Remeasurement gain | (4,792) | 6,933 |
| Contributions by employer | 6,434 | 6,202 |
| Benefits paid | <u>(7,315)</u> | <u>(7,088)</u> |
| At 31 December | <u>191,764</u> | <u>190,603</u> |

Notes (continued)

21 Pension liabilities (continued)

Expense recognised in the profit and loss account

| | 2015 | 2014 |
|---|--------------|--------------|
| | £000 | £000 |
| Current service cost | 4,193 | 3,510 |
| Interest on defined benefit pension plan obligation | 8,172 | 9,067 |
| Interest on defined benefit pension plan assets | (6,834) | (8,097) |
| Total | <u>5,531</u> | <u>4,480</u> |

The expense is recognised in the following line items in the profit and loss account:

| | 2015 | 2014 |
|-------------------------|--------------|--------------|
| | £000 | £000 |
| Cost of sales | 4,958 | 3,943 |
| Distribution expenses | 205 | 219 |
| Administrative expenses | 368 | 318 |
| | <u>5,531</u> | <u>4,480</u> |

Actuarial gains recognised directly in equity:

| | 2015 | 2014 |
|----------------------------------|-----------------|-----------------|
| | £000 | £000 |
| Cumulative amount at 1 January | (43,087) | (25,199) |
| Recognised in the year | 781 | (17,888) |
| Cumulative amount at 31 December | <u>(42,306)</u> | <u>(43,087)</u> |

The fair value of the plan assets and the returns on those assets were as follows:

| | 2015 | 2014 |
|--|----------------|----------------|
| | £000 | £000 |
| Cash and cash equivalents | 11,781 | 636 |
| Equity instruments and other growth assets | 79,162 | 83,569 |
| Debt instruments – Government bonds | 88,278 | 106,090 |
| Property | 12,240 | - |
| Assets held by insurance company | 303 | 308 |
| | <u>191,764</u> | <u>190,603</u> |

No plan assets were invested in company equity securities or property currently used by the company.

Notes (continued)

21 Pension liabilities (continued)

To develop the expected long term rate of return assumption, the Company considered the level of expected returns on risk free investments (primarily Government bonds), the historic level of risk premium associated with other asset classes in which the portfolio is invested and the expectations for the future returns of each asset class. The expected return for each asset class was then weighted based on the actual asset allocation to develop the long term rate of return assumption for the portfolio.

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

| | 2015 | 2014 |
|---------------------------|------|------|
| | % | % |
| Discount rate | 3.72 | 3.60 |
| RPI | 3.11 | 3.10 |
| Rate of pension increases | 3.09 | 3.10 |

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on the standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

| | 2015 | 2014 |
|--|-------|-------|
| | years | years |
| Average life expectancy of a male pensioner from age 65 | | |
| - 72 Plan | 21.6 | 21.5 |
| - 78 Plan | 23.3 | 23.2 |
| Average life expectancy of a future male retiree reaching age 65 | | |
| - 72 Plan | 23.4 | 23.3 |
| - 78 Plan | 25.1 | 25.0 |

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

| | Change in assumption | Impact on scheme liabilities |
|---------------|----------------------|------------------------------|
| Discount rate | 10% decrease | Increase of £16.4m |
| RPI | 10% increase | Increase of £11.9m |
| Mortality | 10% increase | Decrease of £6.2m |

Defined contribution plans

The Company operates a defined contribution pension plan. The total expense relating to these plans in the current year was £2,396,000 (2014: £1,666,000) which represents contributions payable by the Company to the employees' funds. At the end of year there were outstanding contribution payable by the Company of £384k (2014: £187k unpaid contribution).

Notes (continued)

22 Called up share capital and reserves

Called up share capital

| | 10% redeemable preference shares of £1 each | Ordinary shares |
|---|---|-----------------|
| | 2015 | 2015 |
| In thousands of shares | | |
| On issue at 1 January 2015 | 52,900 | 11,847 |
| Issue of ordinary shares | - | 2,214 |
| On issue at 31 December 2015 | <u>52,900</u> | <u>14,061</u> |
| | 2015 | 2014 |
| | £000 | £000 |
| <i>Allotted, called up and fully paid</i> | | |
| Ordinary shares of £1 each | 14,061 | 11,847 |
| 10% redeemable preference shares of £1 each | <u>52,900</u> | <u>52,900</u> |
| | <u>66,961</u> | <u>64,747</u> |

In August 2015 Ashli Chemicals (Holland) B.V. invested €343m (£244m) in the Company in the form of shares in ICL Finance Belgium. This equates to 2,213,171 ordinary £1 shares with the remainder being share premium.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The preference shares are redeemable in whole or in part at the option of the company with the consent in writing of the holders of three-fourths of the preference shares in issue or with the sanction of an extraordinary resolution of preference shareholders. The holders of preference shares are entitled to receive non-cumulative dividends of 10% only if a dividend is declared on the ordinary shares and is therefore at the option of the Company. They are entitled to one vote per share at meetings of the Company only if proposed resolutions would vary or abrogate their rights.

Neither the dividends rights nor the redemption rights impose unavoidable contractual obligations to make payments on the Company. For this reason the preference shares have been classified as equity instruments within shareholders' funds.

Notes (continued)

22 Called up share capital and reserves (continued)

Other comprehensive income

| | Retained earnings | Total other comprehensive income |
|---|----------------------|--|
| | £000 | £000 |
| 2015 | | |
| <i>Other comprehensive income</i> | | |
| Actuarial gain on post retirement benefit obligations | 781 | 781 |
| Income tax on other comprehensive income | (141) | (141) |
| Total other comprehensive income | <u>640</u> | <u>640</u> |

| | Retained earnings | Total other comprehensive income |
|---|----------------------|--|
| | £000 | £000 |
| 2014 | | |
| <i>Other comprehensive income</i> | | |
| Actuarial gain on post retirement benefit obligations | (17,888) | (17,888) |
| Income tax on other comprehensive income | 3,577 | 3,577 |
| Total other comprehensive income | <u>(14,311)</u> | <u>(14,311)</u> |

23 Financial instruments

23 (a) Fair values of financial instruments

The Company's principal financial instruments comprise short and long term debtors and creditors, bank overdrafts, securitisation borrowings and cash. The main purpose of these financial instruments is to raise finance for the Company's ongoing operations and manage its working capital requirement.

Derivative financial instruments

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Notes (continued)

23 Financial instruments (continued)

23 (b) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages its liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on rolling cash forecast.

Exposure to liquidity risk

The following are the contractual maturities of derivative financial liabilities with group undertakings:

| | | 2015 | | | | |
|---|-----------------|------------------------|----------------|---------------|---------------|------------------|
| | Carrying amount | Contractual cash flows | 1 year or less | 1 to <2 years | 2 to <5 years | 5 years and over |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Derivative financial liabilities | | | | | | |
| Options used for hedging: | | | | | | |
| Outflow | (18) | (18) | (18) | - | - | - |
| Inflow | 11 | 11 | 11 | - | - | - |
| | (7) | (7) | (7) | - | - | - |
| | | - | - | - | | |

| | | 2014 | | | | |
|--|-----------------|------------------------|----------------|---------------|---------------|------------------|
| | Carrying amount | Contractual cash flows | 1 year or less | 1 to <2 years | 2 to <5 years | 5 years and over |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Derivative financial liabilities | | | | | | |
| Forward exchange contracts used for hedging: | | | | | | |
| Inflow | 47 | 47 | 47 | - | - | - |
| | 47 | 47 | 47 | - | - | - |
| | | | | | | |

Notes (continued)

23 Financial instruments (continued)

23 (c) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The Company is exposed to currency risk on its holdings of financial instruments that are denominated in a currency over its functional currency. The Company policy is to reduce currency exposures on its holdings of financial instruments through hedging.

Market risk – Foreign currency risk

The Company transacts in both Euros and US Dollars in the ordinary course of business in both revenue and expenses. The net exposure to each currency is closely monitored and is reduced on a timely basis by the use of foreign exchange contracts. Such contracts are taken out with a fellow group undertaking with the opposite exposure or with the company's bankers.

24 Operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 2015 £000 | 2014 £000 |
|----------------------------|--------------|--------------|
| Less than one year | 936 | 1,135 |
| Between one and five years | 1,027 | 1,963 |
| | <u>1,963</u> | <u>3,098</u> |

Of the above amounts £275,000 of less than one year and £389,000 of between one and five years relates to land and buildings (2014: £451,000 and £664,000 respectively).

During the year £2,236,000 was recognised as an expense in the profit and loss account in respect of operating leases (2014: £2,185,000).

25 Related parties

Identity of related parties with which the Company transacted

The Company has made sales to the fellow group company ICL Fertilizers Europe CV. The Company has made purchases from the parent company Dead Sea Works Limited and from fellow group companies ICL Fertilizers Europe CV, Eurocil Holdings BV and Iberpotash S.A.

Starting from October 2015 the company is working under a Single Business Entity System where all finished product is sold to ICL Europe, a fellow group company registered in the Netherlands.

Notes (continued)

25 Related parties (continued)

Transactions with key management personnel

Directors of the Company and their immediate relatives have no control over the voting shares of the Company.

Other related party transactions

There were no other transactions with directors and key management.

| | Sales to 2015 | Sales to 2014 | Purchases from 2015 | Purchases from 2014 |
|-----------------------|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| | £000 | £000 | £000 | £000 |
| Parent | - | - | 4,225 | 7,078 |
| Subsidiaries | 2 | 98 | - | - |
| Other related parties | 96,146 | 44,976 | 34,779 | 4,884 |
| | <u>96,148</u> | <u>45,074</u> | <u>39,004</u> | <u>11,962</u> |
| | | | | |
| | Debtors outstanding 2015 | Debtors outstanding 2014 | Creditors outstanding 2015 | Creditors outstanding 2014 |
| | £000 | £000 | £000 | £000 |
| Parent | - | 107 | 17,326 | 2,766 |
| Subsidiaries | 315,367 | 353,431 | 11,467 | 6 |
| Other related parties | 156,389 | 10,407 | 2,353 | 364,270 |
| | <u>471,756</u> | <u>363,945</u> | <u>31,146</u> | <u>367,042</u> |

26 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Israel Chemicals Limited which is the ultimate parent company incorporated in Israel, whose registered office is Millennium Tower, 23 Aranha St, Tel-Aviv 61202, Israel.

The largest group in which the results of the Company are consolidated is that headed by Israel Chemicals Limited, incorporated in Israel. No other group financial statements include the results of the Company. The consolidated financial statements of this group are available to the public from the following website www.icl-group.com.

Notes (continued)

27 Subsequent events

Restructuring

On the 15th of August 2016 the company announced a further restructuring of the workforce to align potash operations. The company is currently in a 45 days' consultation period with the recognised trade union.

Mine incident

On the 17th of June 2016 a gas outburst occurred whilst mining in the south of the mine on 362 panel which resulted in a fatality. A miner was cutting the second round of a stub when a gas blow occurred and he was buried in the emitted mineral.

Following this accident an additional control has been introduced. Whilst mining (cutting of material) is taking place no other activity such as bolting, drilling, probing or marking up will take place. All other roadways where cutting is not taking place will be fenced off and signage posted.

With the cyclic nature of mining operations the significance of this additional control is that 'time to cut' may be reduced by as much as 50%. This significant impact on production has already happened in the second half of 2016 and the change in production has also been reflected in the 2017 budget and 5 year plan. As a result of the lower future production the potash property, plant and equipment assets were impaired in Q3 2016.

Harmonization

The software costs relate to the ICL Group wide implementation of a global ERP project (the Harmonization Project). In September 2016, the ICL group decided to discontinue this project primarily in light of substantial risks relating to the readiness of the system and its future costs. Therefore the software costs recorded in note 10 will be substantially provided against in the 2016 accounting period.