

Cleveland Potash Limited

Annual report and financial statements

Registered number 00915392

31 December 2017



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Strategic report

The directors present their Strategic Report for the year ended 31 December 2017.

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 the announcement in quarter 3 of 2015 regarding the potash reserves the business entered into a transition period to become a polyhalite only operation. Turnover was substantially down as a result of the depleting potash resource and limited potash production following an interruption with the tailings discharge facility during the first quarter of 2017.

The company continued its capital investment plan to develop its position as a polyhalite only operation. The key investments were into underground infrastructure, including ventilation networks and improved conveyance systems as well as an investment in the PotashpluS processing circuit to develop our innovative process of compacting a blend of potash and polyhalite.

Whilst outside of the reporting period, it should be noted that in June 2018, the last hoist of potash from the mine was performed to complete the transition to a polyhalite only operation.

Restructuring involving reducing workforce numbers took place again in 2017 & 2018 to reduce the business cost base and to build the bridge towards an economically viable polyhalite operation. Continuous support was offered to those employees affected, including fair redundancy terms and working with Job Centre Plus to find alternative employment opportunities. Restructuring costs were included in the year's results.

Commencing October 2015 there was a change in the selling agreement to the take or pay agreement set up between Cleveland Potash Limited and ICL Europe Cooperatief U.A. in the Netherlands. Under this agreement the ICL Europe Cooperatief U.A. purchases the entire operation's production at an agreed transfer price.

In 2016 the company's investment in ICL Iberia was impaired by £105,692,000 in 2016, reflecting its market value based on value in use of £200m. Subsequently, in 2018 ICL group decided to transfer this investment to Amsterdam Fertilizers BV at this market value of £200m.

In 2017 the actual operating loss for the year included one off costs of £99.3m due to the impairment recognised in 2017 on Chinese investments. In 2019 ICL Group decided to transfer its investments in China to another company within ICL Group at its market value of £138m. More contribution to cash came from an interim dividend received from ICL Belgium for an amount of €39.5m on December 28th, 2018.

The operating loss before one-off costs totalled £49,435million.

Following the cancellation of the global ERP system rollout in 2016 the Company prepared to return to the previous system. The transition took place after Quarter 1 in 2017. Consequently, the software costs recorded in 2015 and 2016 were fully provided for in the reporting year and treated as a disposal as disclosed in 2016 annual report, note 10. The SBE structure and the Shared Services Centre in the Netherlands remained in place.

2017 saw an improvement in safety performance and a 50% reduction in lost time injury frequency rate against the previous year.

Mark Kirsten resigned as managing director on December 23, 2017, Andrew Fulton was nominated as Boulby's site General Manager. J Ben Hamou was appointed as a director on December 11, 2017.

Strategic report (continued)

Key performance indicators

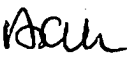
Key performance indicators (KPIs) for the business in the current and preceding year are:

	2017	2016
Revenue (£000)	71,412	96,157
Gross Margin (%)	(53.28%)	(24.05%)
Stocks (£000)	<u>12,660</u>	<u>14,989</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 23. 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. Therefore, global market trend will influence the determination of the agreed transfer price between Cleveland Potash Limited and ICL Europe Cooperatief U.A.

By order of the board


HD Clark
Director

15th March 2019

Directors' report

The directors present their report and financial statements for the year ended 31 December 2017.

Research and development

With regards to 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 and 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.

Cash balances are managed on a Group basis.

Dividends

No dividends were paid during the year (2016: £nil).

Directors

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

HD Clark	
RJN Zuiderwijk	(resigned on 28 February 2018)
E Glazer	(resigned on 5 May 2017)
MM Kirsten	(resigned on 23 December 2017)
J Ben Hamou	(appointed on 11 December 2017)

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.

Directors' report (*continued*)

Political and charitable contributions

The company made no political donations nor incurred any political expenditure during the year (2016: £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


HD Clark
Director

Boulby Mine
Loftus
Saltburn
By The Sea, Cleveland
TS13 4UZ

15th March 2019

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

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 UK Accounting Standards and applicable law (UK Generally Accepted 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
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative 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.



KPMG LLP

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NE1 3DX
United Kingdom

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLEVELAND POTASH LIMITED

Opinion

We have audited the financial statements of Cleveland Potash Limited ("the company") for the year ended 31 December 2017 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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 impairment of investments, impairment of property, plant and equipment, recoverability of deferred tax assets, retirement benefit obligations and provisions and related disclosures and 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 company'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 company'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").

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 5, 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.

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.



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

20 March 2019

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 December 2017

	<i>Note</i>	Total 2017 £000	Total 2016 £000
Turnover	1,2	71,412	96,157
Cost of sales		<u>(109,459)</u>	<u>(119,286)</u>
Gross loss		(38,047)	(23,129)
Distribution costs		-	-
Administrative expenses		(10,956)	(14,190)
Other operating expenses		<u>(99,702)</u>	<u>(124,468)</u>
Operating loss	3-5	(148,705)	(161,787)
Analysed as:			
Operating loss before one-off costs	3	(49,435)	(37,669)
Redundancy costs	3	-	(1,750)
Impairment of tangible assets	3	-	(3,890)
Amounts written off investments	11	(99,270)	(105,692)
Impairment of intangible assets	3	<u>-</u>	<u>(12,786)</u>
		(148,705)	(161,787)
Other interest receivable and similar income	6	9,710	15,440
Other interest payable and similar charges	7	<u>(12,005)</u>	<u>(9,258)</u>
Loss on ordinary activities before taxation		(151,000)	(155,605)
Tax	8	<u>2,798</u>	<u>6,079</u>
Loss for the financial year		<u>(148,202)</u>	<u>(149,526)</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements on defined benefit pension plans	21	16,138	(40,190)
Income tax on items that will not be reclassified on the profit and loss	8	<u>(1,525)</u>	<u>7,447</u>
Other comprehensive income/(expense) for the year, net of income tax		<u>14,613</u>	<u>(32,743)</u>
Total comprehensive expense for the year		<u>(133,589)</u>	<u>(182,269)</u>

The notes on pages 11 to 41 form an integral part of the financial statements.

All activities derive from continuing operations.

Balance sheet
at 31 December 2017

	<i>Note</i>	2017 £000	2016 £000
Fixed assets			
Tangible assets	9	109,637	125,071
Intangible assets	10	280	70
Investments	11	<u>637,319</u>	<u>731,602</u>
		747,236	856,743
Current assets			
Stocks	13	12,660	14,989
Debtors	12	35,419	28,651
Cash at bank and in hand		<u>9,976</u>	<u>72</u>
		58,055	43,712
Creditors: amounts falling due within one year	16	<u>(119,665)</u>	<u>(74,228)</u>
Net current liabilities		<u>(61,610)</u>	<u>(30,516)</u>
Total assets less current liabilities		685,626	826,227
Creditors: amounts falling due after more than one year	19	(264,498)	(255,593)
Provision for liabilities			
Other provisions	20	(10,070)	(9,887)
Pension liability	21	<u>(61,551)</u>	<u>(77,651)</u>
		(71,621)	(87,538)
Net assets		<u>349,507</u>	<u>483,096</u>
Capital and reserves			
Called up share capital	22	66,961	66,961
Share premium account		725,779	725,779
Profit and loss account		<u>(443,233)</u>	<u>(309,644)</u>
Shareholders' funds		<u>349,507</u>	<u>483,096</u>

The notes on pages 11 to 41 form an integral part of the financial statements.

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


HD Clark
Director

Company registered number: 00915392

Statement of Changes in Equity
for the year ended 31 December 2017

	Share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2016	66,961	725,779	(127,375)	665,365
Loss for the year	-	-	(149,526)	(149,526)
Other comprehensive expense (Note 22)	-	-	(32,743)	(32,743)
Total comprehensive expense for the year	-	-	(182,269)	(182,269)
Balance at 31 December 2016	66,961	725,779	(309,644)	483,096

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	66,961	725,779	(309,644)	483,096
Loss for the year	-	-	(148,202)	(148,202)
Other comprehensive expense (Note 22)	-	-	14,613	14,613
Total comprehensive expense for the Year	-	-	(133,589)	(133,589)
Balance at 31 December 2017	66,961	725,779	(443,233)	349,507

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 has recorded a loss of £148m in the year, including impairment losses on fixed asset investments of £99m. The year end balance sheet shows net current liabilities of £62m and shareholders' funds of £350m.

As discussed in the Strategic Report the company is in a period of transition, with the winding down of Potash mining and the refocus on mining and selling Polyhalite, with substantial investment ongoing to develop the position as a Polyhalite only operation. The directors have a long term plan to return the company to profitability although there is a degree of uncertainty as to how many years this might take to achieve, not least because Polyhalite is a global commodity driven by market pricing, and therefore the directors are also undertaking a wider review of all the possible strategic options for the company.

As part of a post year end group restructuring exercise (see note 27) the company has invested a further £55m into fixed asset investments and then subsequently disposed of a number of its fixed asset investments to other group companies for aggregate proceeds of £315m. It has also received settlement of loans due from group undertakings of £205m and repaid loans from group undertakings of £205m substantially improving the net current asset position of the company. At the date of approval of these financial statements the (unaudited) balance sheet of the company shows net current assets of £62m. This includes a net amount of £67m due to the company by ICL Finance BV. ICL Finance BV is the ICL group finance vehicle for external and internal financing and operates an In-House Bank. All excess cash is centralized here in order to minimize the working capital requirements for the group and therefore holds this amount on behalf of the company. ICL Finance BV has confirmed that this balance is available to the company on demand and that the company can draw on this balance without restriction.

The company's forecasts and projections, taking account of reasonably possible changes in future trading performance, show that the company is expected to have a sufficient level of financial resources available through its own resources and through drawing down these balances with ICL Finance BV to meet its ongoing financial commitments for the foreseeable future. Therefore the directors believe that the company is placed to manage its current business risks successfully and, after making enquiries (including enquiries of group management and management of ICL Finance BV) 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.

Notes (continued)

1 Accounting policies (continued)

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 8 and 15 – recoverability of deferred tax assets

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.

Notes (continued)

1 Accounting policies (continued)

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.

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. Since 1 October 2015, the Company only sells to the group companies.

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 net 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 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. Since 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.

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.

Notes (continued)

1 Accounting policies (continued)

Taxation (continued)

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.

2 Turnover

Substantially all turnover arose from the principal activity of the company which is considered to represent only one operating segment. All turnover is derived from the sale of goods. All turnover is to the European Union, outside of the UK.

3 Expenses and auditor's remuneration

Included in operating loss are the following:

	2017	2016
	£000	£000
Depreciation of tangible fixed assets	23,645	23,281
Amortisation of intangible assets	10	8
Hire of plant and machinery	2,336	2,302
Operating lease charge for land and buildings	774	275
Research and development expenses as incurred	434	248
Redundancy costs	-	1,750
Impairment of fixed asset investments	99,270	105,692
Impairment of tangible fixed assets	-	3,890
Impairment of intangible assets	-	12,786

Impairment of tangible assets, fixed asset investments and intangible assets are one-off costs incurred due to the change in the long term strategy of the company.

Notes (continued)

3 Expenses and auditor's remuneration (continued)

Auditor's remuneration:

	2017 £000	2016 £000
Audit of these financial statements	106	86
<i>Amounts receivable by the auditors and their associates in respect of:</i>		
Audit related assurance services	1	-
Other services relating to taxation	94	126
	<u>101</u>	<u>212</u>

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:

	2017	2016
Production	609	895
Administration, sales and distribution	33	68
	<u>642</u>	<u>963</u>

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	24,449	37,215
Social security costs	2,905	3,686
Contributions to defined contribution pension plans (Note 21)	2,012	2,206
Expenses related to defined benefit plans (Note 21)	5,316	4,802
	<u>34,682</u>	<u>47,909</u>

Redundancy costs of £nil are included in the above (2016: £1,750,000).

Notes (continued)

5 Directors' remuneration

	2017	2016
	£000	£000
Directors' emoluments	349	480

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £245,773 (2016: £278,739).

	Number of directors	
	2017	2016
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	1	1
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	1	1

A number of employees in the Company (including 1 (2016: 1) director) 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.

6 Other interest receivable and similar income

	2017	2016
	£000	£000
Interest income on unimpaired financial assets	9,710	10,466
Net foreign exchange gain	-	4,974
	9,710	15,440

7 Interest payable and similar charges

	2017	2016
	£000	£000
Total interest expense on financial liabilities measured at amortised cost	6,753	7,174
Unwinding of discount on provisions (Note 20)	183	1,541
Net foreign exchange loss	4,353	-
Interest on securitised borrowings	710	535
Bank charges	6	8
Total finance expense	12,005	9,258

Notes (continued)

8 Taxation

Recognised in the profit and loss account:

	2017	2016
	£000	£000
Current tax expense		
Group relief receivable for the year	(1,236)	(1,028)
Group relief for prior years	(343)	(1,519)
Current tax credit	(1,579)	(2,547)
Deferred tax expense		
Origination and reversal of temporary differences	(2,001)	(3,932)
Adjustment for prior years	-	(190)
Reduction in DTA as a result of reduction of tax rate	782	590
Deferred tax expense	(1,219)	(3,532)
Tax credit in the profit and loss account	(2,798)	(6,079)

Income tax recognised in other comprehensive income

	2017	2016
	£000	£000
Deferred tax on remeasurements on defined benefit pension plans	1,525	(7,447)

Reconciliation of effective tax rate

	2017	2016
	£000	£000
Loss for the year	(148,202)	(149,526)
Total tax credit	(2,798)	(6,079)
Loss excluding taxation	(151,000)	(155,605)
Tax using the UK corporation tax rate of 19.25% (2016: 20%)	(29,068)	(31,121)
Other timing differences	-	863
Non-deductible expenses	19,110	21,367
Overprovided in prior years	(773)	(1,709)
Unrecognised tax losses	7,151	3,931
Reduction on deferred tax balances due to rate change	782	590
Total tax credit	(2,798)	(6,079)

Notes (continued)

8 Taxation (continued)

Factors affecting the current and total tax charges

Reductions in the UK Corporation Tax rate to 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020) were substantively enacted on 8 July 2015 and on 6 September 2016. The deferred tax assets and liabilities are calculated using the rate of 17%.

Management assesses the available evidence to estimate whether sufficient taxable income will be generated in future periods to permit the use of the existing deferred tax assets. In order to recognise only the portion of the deferred tax asset that is more likely than not to be realized, £7.2m has been recorded as unrecognised tax losses in the year.

The amount of the deferred tax asset considered realizable could be adjusted if estimates of taxable income during future periods are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as projections for growth.

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 2017	33,422	240,696	1,722	23,413	299,253
Additions	-	-	-	8,247	8,247
Transfers	-	25,248	-	(25,248)	-
Reclassification	-	-	-	-	-
Disposals	-	(50)	-	-	(50)
Balance at 31 December 2017	33,422	265,894	1,722	6,412	307,450
Depreciation					
Balance at 1 January 2017	27,889	146,192	101	-	174,182
Depreciation charge for the year	94	23,449	102	-	23,645
Disposals	-	(14)	-	-	(14)
Reclassification	-	-	-	-	-
Balance at 31 December 2017	27,983	169,627	203	-	197,813
Net book value					
At 1 January 2017	5,533	94,504	1,621	23,413	125,071
At 31 December 2017	5,439	96,267	1,519	6,412	109,637

The cost of fully depreciated assets included above under plant and equipment is £82.4m (2016: £76.1m).

Capital expenditure amounting to £0.8m (2016: £0.8m) has been contracted for but is not provided for in these financial statements. A further £1.4m (2016: £1.2m) has been authorised but not yet contracted for.

Notes (continued)

10 Intangible assets

	Software costs £000	Exploration costs £000	Total £000
Cost			
Balance at 1 January 2017	1,959	76	2,035
Additions	-	220	220
Balance at 31 December 2017	<u>1,959</u>	<u>296</u>	<u>2,255</u>
Amortisation			
Balance at 1 January 2017	1,954	11	1,965
Amortisation for the year	<u>5</u>	<u>5</u>	<u>10</u>
Balance at 31 December 2017	<u>1,959</u>	<u>16</u>	<u>1,975</u>
Net book value			
1 January 2017	<u>5</u>	<u>65</u>	<u>70</u>
At 31 December 2017	<u>-</u>	<u>280</u>	<u>280</u>

Amortisation charge

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

Notes (continued)

11 Fixed asset investments

The Company has the following investments in subsidiaries (*indirectly held, + dissolved in the year):

	Country of incorporation	Class of shares held	Ownership	
			2017	2016
ICL UK (Sales) Limited	UK	Ordinary	100%	100%
ICL Iberia Limited SCA (formerly known as ICL Iberia Limited SCS)	Spain	Ordinary	99.9%	99.9%
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%	100%
ICL (Shanghai) Investment Co Ltd	China	Ordinary	82.4%	82.4%
Yunnan Phosphate Haikou Co Ltd	China	Ordinary	50%	50%
Yunnan ICL YTH Research & Technology Center Co Ltd	China	Ordinary	50%	50%
Yunnan Three Circles Chemicals Co Ltd.*	China	Ordinary	50%	50%
Yunnan BK Giulini Tianchuang Phosphate Co. Ltd*	China	Ordinary	50%	50%
Yunnan Tianchuang Science & Technology Co. Ltd*	China	Ordinary	50%	50%

	Loans to group undertakings £000	Shares in group undertakings £000	Total £000
Cost			
Balance at 1 January 2017	290,099	747,160	1,037,259
Exchange differences	4,987	-	4,987
Balance at 31 December 2017	295,086	747,160	1,042,246
Impairment			
Balance at 1 January 2017	-	305,657	305,657
Impairment	-	99,270	99,270
Balance at 31 December 2017	-	404,927	404,927
Net book value			
At 31 December 2016	290,099	441,503	731,602
At 31 December 2017	295,086	342,233	637,319

Notes (continued)

11 Fixed asset investments (continued)

The loans to group undertakings represent a loan of €231m, a loan of £16.4m and a loan of €73.4m (or CNY645m). €231m is not repayable before 22 December 2018 and bears interest at 3.2% above six month Euribor. £16.4m is not repayable before 31 December 2021 and bears interest at 1.75% above six month Libor. However, €150m was repaid in July 2018 and an additional €81m was repaid in December 2018. The remaining €16m will be repaid before the end of December 2019. €174.5m of loans were repaid in January 2016. During 2016 a new loan was provided to one of the subsidiary undertaking of CNY1,370m (£143m), which was partially settled (£80m, or CNY725m) during 2016 in the form of shares. This loan bears interest at 4.35% and is repayable before 5 January 2026.

The directors have conducted a review of the carrying value of the Company's investments in all 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 in the range of 8.5% - 9.5% and approved cashflow forecasts to 31 December 2022.

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 company's investment in ICL Iberia was impaired by £105,692,000 in the prior year, reflecting its market value based on value in use of €200m. Subsequently, in 2018 the ICL group has transferred this investment to Amsterdam Fertilizers BV at this market value of €200m.

The company's aggregate investments in ICL (Shanghai) Investment Co Ltd, Yunnan Phosphate Haikou Co Ltd and Yunnan ICL YTH Research and Technology Centre Co have been impaired during 2017 by £99,270,233, from their original cost of £219,121,996 to their estimated recoverable amount of £119,851,763. Recoverable amount is the higher of value in use and net realisable value. The equity of ICL (Shanghai) Investment Co Ltd is listed on the Shanghai Stock Exchange and therefore the recoverable amount has been determined by the quoted equity value of the shares at 31 December 2017. The recoverable amounts of Yunnan Phosphate Haikou Co Ltd and Yunnan ICL YTH Research and Technology Centre Co have been determined using discounted cash flow techniques which were also ultimately used to determine the final sales value of these investments. These cash flows were discounted at 9.5% and are based on approved cash flows to 31 December 2023.

Subsequent to the year end, on 10 August 2018 the company increased its investment in Yunnan Phosphate Haikou Co by £55.6m. On 18 February 2019 the company's investments in ICL (Shanghai) Investment Co Ltd, Yunnan Phosphate Haikou Co Ltd and Yunnan ICL Research and Technology Centre Co were sold to another ICL Group company for a combined value of £138m.

Notes (continued)

12 Debtors

	2017	2016
	£000	£000
Amounts owed by fellow subsidiary undertakings	18,054	7,835
Trade debtors	83	156
Other debtors	16	733
Prepayments	35	1,578
Deferred tax asset (Note 15)	17,231	17,537
Tax receivable	-	812
	<u>35,419</u>	<u>28,651</u>

The deferred tax asset is expected to be recovered over a period of greater than one year.

13 Stocks

	2017	2016
	£000	£000
Raw materials and consumables	10,143	11,680
Finished goods	2,517	3,309
	<u>12,660</u>	<u>14,989</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 £16m (2016: £28m).

14 Other financial assets

	2017	2016
	£000	£000
Current		
Financial liabilities designated as fair value through profit or loss (Note 16)	-	(12)
	<u>-</u>	<u>(12)</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	
	2017	2016	2017	2016	2017	2016
	£000	£000	£000	£000	£000	£000
Tangible fixed assets	(5,024)	(3,232)	-	-	(5,024)	(3,232)
Employee benefits	(11,592)	(13,815)	-	-	(11,592)	(13,815)
Other	(615)	(490)	-	-	(615)	(490)
Tax (assets)/liabilities	<u>(17,231)</u>	<u>(17,537)</u>	<u>-</u>	<u>-</u>	<u>(17,231)</u>	<u>(17,537)</u>

In addition to the above, the company has unrecognised deferred tax assets arising on losses carried forwards of £4,857,000 (2016: £3,931,000).

Movement in deferred tax during the year

	1 January 2017	Recognised in income	Recognised in equity	31 December 2017
	£000	£000	£000	£000
Tangible fixed assets	(3,232)	(1,792)	-	(5,024)
Employee benefits	(13,815)	698	1,525	(11,592)
Other	(490)	(125)	-	(615)
	<u>(17,537)</u>	<u>(1,219)</u>	<u>1,525</u>	<u>(17,231)</u>

Movement in deferred tax during the prior year

	1 January 2016	Recognised in income	Recognised in equity	31 December 2016
	£000	£000	£000	£000
Tangible fixed assets	767	(3,999)	-	(3,232)
Employee benefits	(6,935)	567	(7,447)	(13,815)
Other	(390)	(100)	-	(490)
	<u>(6,558)</u>	<u>(3,532)</u>	<u>(7,447)</u>	<u>(17,537)</u>

Notes (continued)

16 Creditors: amounts falling due within one year

	2017	2016
	£000	£000
Amounts due to group companies	101,686	60,419
Trade creditors	6,988	6,426
Other creditors and accrued expenses	10,743	7,123
Other financial liabilities (Note 14)	-	12
Deferred government grants (Note 18)	248	248
	<u>119,665</u>	<u>74,228</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.

	2017	2016
	£000	£000
Creditors falling due after more than one year		
Loan from fellow group undertaking	<u>260,515</u>	<u>251,362</u>

Notes (continued)

17 Interest bearing loans and borrowings (continued)

Loans from fellow group undertakings represent a total loan of €293.7m (2016: €293.7m). During 2016 €174.5m was repaid by the Company in cash. In July 2018, the company repaid €150m and in December 2018 the company repaid an additional €81m. The remaining amount €62.7m, is not repayable before 31 December 2018 and bears interest at 3.0% above six month Euribor and €63m is not repayable before August 2020 and bears interest at 2.0% above six month Euribor. These loans are subordinated in all respect to the company's obligations for employee retirement benefits. No amounts fall due for settlement after more than five years.

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2017 € 000	Carrying amount 2017 £000	Face value 2016 € 000	Carrying amount 2016 £000
Loan from group undertaking	€	3.0% above 6 month Euribor	2018	230,764	204,675	230,764	197,485
Loans from group undertaking	€	2.0% above 12 month Euribor	2020	62,957	55,840	62,957	53,877
				<u>293,721</u>	<u>260,515</u>	<u>293,721</u>	<u>251,362</u>

Notes (continued)

18 Deferred government grants

	2017 £000	2016 £000
At 1 January	4,479	4,622
Released during the year	<u>(248)</u>	<u>(143)</u>
At 31 December	<u><u>4,231</u></u>	<u><u>4,479</u></u>
Current	248	248
Non-current	<u>3,983</u>	<u>4,231</u>
	<u><u>4,231</u></u>	<u><u>4,479</u></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

	2017 £000	2016 £000
Interest bearing loans and borrowings (Note 17)	260,515	251,362
Deferred government grants (Note 18)	<u>3,983</u>	<u>4,231</u>
	<u><u>264,498</u></u>	<u><u>255,593</u></u>

20 Other provisions

	£000
At 1 January 2016	8,346
Unwinding of discount	<u>1,541</u>
At 31 December 2016	<u><u>9,887</u></u>
At 1 January 2017	9,887
Unwinding of discount	<u>183</u>
At 31 December 2017	<u><u>10,070</u></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 £183,000 (2016: £1,541,000) has been allocated 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.

	2017 £000	2016 £000
Present value of funded defined benefit obligations	(271,103)	(280,663)
Fair value of plan assets	209,552	203,012
Total pension liabilities	<u>(61,551)</u>	<u>(77,651)</u>

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

	2017 £000	2016 £000
At 1 January	280,663	230,293
Current service cost	3,323	3,466
Interest cost	7,243	8,213
<i>Remeasurements:</i>		
Effect of change in financial assumptions	(5,012)	58,364
Benefits paid	(14,732)	(19,009)
Insurance premiums for risk benefits	(382)	(664)
At 31 December	<u>271,103</u>	<u>280,663</u>

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

	2017 £000	2016 £000
At 1 January	203,012	191,764
Net interest on plan assets	5,250	6,877
Remeasurement gain	11,126	18,174
Contributions by employer	5,278	5,870
Benefits paid	(14,732)	(19,009)
Insurance premiums for risk benefits	(382)	(664)
At 31 December	<u>209,552</u>	<u>203,012</u>

Notes (continued)

21 Pension liabilities (continued)

Expense recognised in the profit and loss account

	2017	2016
	£000	£000
Current service cost	3,323	3,466
Interest on defined benefit pension plan obligation	7,243	8,213
Interest on defined benefit pension plan assets	(5,250)	(6,877)
Total	<u>5,316</u>	<u>4,802</u>

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

	2017	2016
	£000	£000
Cost of sales	5,040	4,465
Administrative expenses	276	337
	<u>5,316</u>	<u>4,802</u>

Actuarial gains recognised directly in equity:

	2017	2016
	£000	£000
Cumulative amount at 1 January	(82,496)	(42,306)
Recognised in the year	16,138	(40,190)
Cumulative amount at 31 December	<u>(66,358)</u>	<u>(82,496)</u>

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

	2017	2016
	£000	£000
Cash and cash equivalents	1,201	11,359
Equities	75,573	78,958
Debt instruments - Government and Corporate bonds	118,510	99,450
Property	13,943	12,904
Assets held by insurance company	325	341
	<u>209,552</u>	<u>203,012</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:

	2017	2016
	%	%
Discount rate	2.53	2.65
RPI	3.20	3.28
Rate of pension increases	3.17	3.25

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:

	2017	2016
	years	years
Average life expectancy of a male pensioner from age 65		
- 72 Plan	21.3	21.7
- 78 Plan	23.5	23.5
Average life expectancy of a future male retiree reaching age 65		
- 72 Plan	22.7	23.4
- 78 Plan	25.2	25.2

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 £13.7m
RPI	10% increase	Increase of £15.4m
Mortality	10% decrease	Decrease of £8.6m

Defined contribution plans

The Company operates a defined contribution pension plan. The total expense relating to these plans in the current year was £2,011,736 (2016: £2,206,000) which represents contributions payable by the Company to the employees' funds. At the end of year there were outstanding contributions payable by the Company of £174k (2016: £177k).

Notes (continued)

22 Called up share capital and reserves

Called up share capital

	10% redeemable preference shares of £1 each	Ordinary shares
	2017	2017
In thousands of shares		
On issue at 1 January 2017 and at 31 December 2017	52,900	14,061
	52,900	14,061
	2017	2016
	£000	£000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	14,061	14,061
10% redeemable preference shares of £1 each	52,900	52,900
	66,961	66,961

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
2017		
<i>Other comprehensive income</i>		
Actuarial loss on post retirement benefit obligations	16,138	16,138
Income tax on other comprehensive income	(1,525)	(1,525)
Total other comprehensive income	<u>14,613</u>	<u>14,613</u>

	Retained earnings	Total other comprehensive income
	£000	£000
2016		
<i>Other comprehensive income</i>		
Actuarial gain on post retirement benefit obligations	(40,190)	(40,190)
Income tax on other comprehensive income	7,447	7,447
Total other comprehensive income	<u>(32,743)</u>	<u>(32,743)</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. The company continues to be dependent upon the ongoing financial support of the ICL Group.

Exposure to liquidity risk

The Company held short term derivative financial instruments in 2017 in the form of forward currency exchange contracts liabilities with group undertakings. These have a year end fair value liability of nil (2016: £12,000).

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.

Notes (continued)

24 Operating leases

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

	2017 £000	2016 £000
Less than one year	3,712	2,758
Between one and five years	10,668	3,722
	<u>14,380</u>	<u>6,480</u>

Of the above amounts £1,077,984 of less than one year and £4,311,936 of between one and five years relates to land and buildings (2016: £1,077,000 and £4,312,000 respectively).

During the year £3,110,000 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £2,577,000).

25 Related parties

Identity of related parties with which the Company transacted

The Company has made sales to a fellow group company ICL Europe CV registered in the Netherlands under a Single Business Entity System. The Company has made purchases from the parent company Dead Sea Works Limited and from fellow group companies ICL Europe CV and ICL UK Sales Ltd.

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 2017 £000	Sales to 2016 £000	Purchases from 2017 £000	Purchases from 2016 £000
Parent	-	-	8,343	-
Subsidiaries	-	-	1,098	15
Other related parties	71,254	96,157	31,550	91,849
	<u>71,254</u>	<u>96,157</u>	<u>40,991</u>	<u>91,864</u>

Notes (continued)

25 Related parties (continued)

	Debtors outstanding 2017 £000	Debtors outstanding 2016 £000	Creditors outstanding 2017 £000	Creditors outstanding 2016 £000
Parent	730	-	7,574	8,265
Subsidiaries	300,576	292,820	92,560	16,876
Other related parties	11,827	5,114	1,552	35,278
	313,133	297,934	101,686	60,419

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, Israël.

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.

27 Subsequent events

On the 4th January 2018 the company announced a redundancy programme, affecting circa 230 employees, of the cessation of the production of potash at the end of June 2018.

After the collective consultation with the union it was identified that approximately 200 redundancies are now required. A provision of £3.7m was recognised in the January 2018 accounts.

On the 15th of May 2018 the company sold its carbon emission rights by £2,320,847 to a third party.

On the 12th July 2018 the company sold, for £177m, the investment held in ICL Iberia Limited SCS, to a fellow ICL subsidiary for strategic group financial reasons (note 11).

On the 31st July 2018 the company received a repayment of the loan to group undertakings by £132,524,175 and at the same time repaid a loan from fellow group undertaking by £132,524,175.

On the 31st December 2018 the company received a repayment of the loan to group undertaking by £72,795,088 and simultaneously repaid a loan from fellow group undertaking by £72,795,088.

On the 10th August 2018 the company increased its investment held in Yunnan Phosphate Haikou Co by £55,680,000. The ownership in Yunnan Phosphate Haikou Co remained unvaried (note 11). On the 18th of February 2019 the company's investments in ICL (Shanghai) Investment Co Ltd, Yunnan Phosphate Haikou Co Ltd and Yunnan ICL YTH Research & Technology Center Co have been transferred to another ICL Group company for a total amount of £137,882,022 reflecting its market value.

On the 28th December 2018 more contribution to cash came from an interim dividend received from ICL Belgium for an amount of £35.8m.

Notes *(continued)*

27 Subsequent events *(continued)*

On 26 October 2018 the High Court ruled in the landmark Lloyds Banking Group case on Guaranteed Minimum Pensions (“GMP”s).

The judgement requires equalisation between men and women for the effect of unequal GMPs accrued between 1990 and 1997 (i.e., for defined benefit pension schemes with “contracted out” members between May 1990 and April 1997) and describes the applicable ways in which the benefit entitlements should be equalised. The effect will be to increase the defined benefit obligation (DBO), resulting in an increase to the pension deficit on the balance sheet, potentially by a significant amount. The financial impact of GMP equalisation on the company’s pension scheme for future accounting periods will be considered in future financial statements, which may impact the pension liabilities of between 1% to 3%.