ENVIROGEN WATER TECHNOLOGIES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

Registered Company Number 03289389

Envirogen Water Technologies Limited
Financial Statements
for the year ended 31 December 2019

Envirogen Water Technologies Limited
Directors and Advisors

Directors	DS Malvenan T Metcalfe B Denyer
Registered Office	Unit 9 Wimsey Way Alfreton Trading Estate Somercotes Alfreton Derbyshire DE55 4LS
Independent Auditors	Pricewaterhousecoopers LLP Donington Court Pegasus Business Park Herald Way East Midlands DE74 2UZ
Principal Bankers	HSBC Bank plc 26 Broad Street Reading Berkshire RG1 2BU
Registered company number	03289389

Envirogen Water Technologies Limited
Strategic Report for the year ended 31 December 2019

The directors present their strategic report of the Company for the year ended 31 December 2019.

Review of the business
The loss after taxation for the year is £749,000 (2018: £707,000 loss). The directors do not recommend a dividend for the year (2018: £nil dividend).

The Company's key financial and other performance indicators during the year were as follows:

	2019 £'000	2018 £'000
Turnover	9,259	12,905
Gross profit	3,191	3,039
Gross profit %	34%	24%
Overheads (pre exceptional costs)	(3,190)	(3,702)
Operating profit/(loss) (pre exceptional costs)	1	(663)
Exceptional costs	(865)	(195)
Operating loss (before interest and tax)	(864)	(858)

Revenue is generated through the sale of goods in the form of water purification and process filtration systems and consumables and also through work servicing equipment. There has been a reduction in both consumables revenues which have decreased in the year by £0.3 million to £1.3 million and systems revenues which have reduced by £3.3m to £4.9m. This reflects the focus of the business on its core strengths in processing incoming water and the supply of filtration products. Service revenues are consistent year on year at £3.1 million.

Gross margins have increased from 24% to 34% in 2019. This improvement reflects the concentration on products and services in 2019 within its core areas whereas 2018 was impacted by some low margins on a number of legacy systems projects that have now been completed.

Overheads have reduced as a consequence of restructuring of the business such that it operates from one site, under new management and is focussed on revenue streams within its core competencies.

The Company implemented IFRS16 Leases on 1 January 2019. As disclosed in note 12, this has the impact of reducing the operating profit in 2019 by £73,000 as lease payments of £195,000 are accounted for as payments against the lease liabilities and these payments are replaced in the income statement by the depreciation of right-of-use assets of £268,000.

As a result, the Company achieved a break even operating result (prior to exceptional items) in the year which was a significant improvement on the loss of £0.7 million in 2018.

The company settled two multi-year design, build and operate contracts in the year. An exceptional loss of £0.8 million resulted on one of these as this was settled at a lower level than the long-term receivable held.

The Company has net liabilities of £8.7 million at the end of 2019 and, although the Company has positive cash reserves of £2.2 million at 31 December 2019, as explained in Note 2, it is dependent on debt financing from its ultimate parent undertaking and controlling party, Janili S.a r.l..

Principal risks and uncertainties

Credit risk
The Company trades only with recognised, credit worthy customers. All customers who wish to trade on credit are subject to credit verification checks. Customer balances are checked regularly to ensure that the risk of exposure to bad debts is minimised.

Liquidity risk
The Company actively manages the liquidity risk by preparing detailed budgets and forecasts. These budgets are actively monitored on a monthly basis and are revised regularly in the light of updated information. The Company then arranges adequate funding to ensure that the Company maintains its liquidity. The Company continues to receive support from its parent undertaking, Janili S.à r.l..

Interest rate risk
The Company's policy is to manage its cost of borrowing. The Company's policy is to use variable rate finance and to review this depending on the circumstances at each funding requirement. The Board monitors the interest rate risk but does not hedge this risk.

Principal risks and uncertainties (continued)

Foreign currency risk
The Company has foreign exchange rate exposure due to the high level of intercompany loans and balances. The company's non Sterling loans and balances are held in Euros and US Dollars. The wider Group operates using these currencies and the Company is therefore able to mitigate its currency exposure through these operations.

Approved by the Board on 24 April 2020 and signed on behalf of the Board:

T C Metcalfe

T Metcalfe
Director
24 April 2020

Envirogen Water Technologies Limited
Directors' Report for the year ended 31 December 2019

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

Principal activities

The principal activities of the Company during the year were the sale and servicing of water purification and process filtration equipment.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

DS Malvenan
T Metcalfe
B Denyer (appointed 24 June 2019)

The Company is a wholly owned subsidiary and the interests of the directors are disclosed in the financial statements of the ultimate parent company, Janili S.à r.l.

Result for the year

The Company made a loss in the year of £749,000 (2018: loss of £707,000). The directors do not propose a dividend in the year (2018: nil). Additional information on the performance, risks and uncertainties of the Company are provided in the Strategic report.

Future developments

The Company intends to continue to focus on its core strengths within the key markets it has identified.

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position are described in Note 2 to the financial statements.

Independent Auditors

The resolution regarding the re-appointment of auditors will be considered at the next Annual General Meeting.

The financial statements on pages 8 to 29 were approved by the Board of Directors on 24 April 2020 and signed on its behalf by:

TC Metcalfe

T Metcalfe
Director
24 April 2020

Envirogen Water Technologies Limited
Directors' Responsibilities for the year ended 31 December 2019

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the persons who is a director at the date of approval of this report confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors' report to the members of Envirogen Water Technologies Limited

Report on the audit of the financial statements

Opinion

In our opinion, Envirogen Water Technologies Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2019; the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Independent auditors' report to the members of Envirogen Water Technologies Limited

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

P. J. Norbury

Paul Norbury (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
27 April 2020

Envirogen Water Technologies Limited
Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £'000**	Year ended 31 December 2018 £'000
Revenue	3	**9,259**	12,905
Cost of sales		**(6,068)**	(9,866)
Gross profit		**3,191**	3,039
Administrative expenses			
- Normal		**(3,190)**	(3,702)
- Exceptional items	5	**(865)**	(195)
- Total		**(4,055)**	(3,897)
Operating profit/(loss) (prior to exceptional items)		**1**	(663)
Exceptional items	5	**(865)**	(195)
Operating loss	4	**(864)**	(858)
Finance income	8	**153**	186
Finance costs	8	**(38)**	(35)
Net finance income		**115**	151
Loss before income tax		**(749)**	(707)
Income tax expense	9	**-**	-
Loss for the financial year		**(749)**	(707)
Other comprehensive expense for the year		**-**	-
Total comprehensive expense for the year		**(749)**	(707)

The notes on pages 11 to 29 form an integral part of these financial statements.

Envirogen Water Technologies Limited
Statement of Financial Position

As at 31 December 2019

	Note	**2019** £'000	2018 £'000
		As at 31 December	
Fixed assets			
Intangible assets	10	**94**	101
Property, plant and equipment	11	**124**	219
Right-of-use assets	12	**557**	-
Trade and other receivables	14	**-**	3,900
		775	4,220
Current assets			
Inventories	13	**1,197**	1,120
Trade and other receivables	14	**3,807**	3,660
Cash and cash equivalents		**2,234**	369
		7,238	5,149
Creditors: amounts falling due within one year	15	**(16,369)**	(17,312)
Net current liabilities		**(9,131)**	(12,163)
Total assets less current liabilities		**(8,356)**	(7,943)
Creditors: amounts falling due after more than one year	16	**(383)**	(47)
Net liabilities		**(8,739)**	(7,990)
Equity			
Called up share capital	19	**-**	-
Accumulated losses		**(8,739)**	(7,990)
Total shareholders' deficit		**(8,739)**	(7,990)

The notes on pages 11 to 29 are an integral part of these financial statements.

The financial statements on pages 8 to 29 were approved and authorised for issue by the Board on 24 April 2020 and signed on its behalf by:

T C Metcalfe.

T Metcalfe
Director
24 April 2020

Registered number: 03289389

Envirogen Water Technologies Limited
Statement of Changes in Equity

For the year ended 31 December 2019

	Called up share capital £'000	Accumulated losses £'000	Total Shareholders deficit £'000
Balance at 1 January 2018	-	(7,283)	(7,283)
Loss for the financial year	-	(707)	(707)
Total comprehensive expense for the year	-	(707)	(707)
Balance as at 31 December 2018	-	(7,990)	(7,990)
Loss for the financial year	-	(749)	(749)
Total comprehensive expense for the year	-	(749)	(749)
Balance as at 31 December 2019	**-**	**(8,739)**	**(8,739)**

The notes on pages 11 to 29 are an integral part of these financial statements.

1 General Information

The financial statements of Envirogen Water Technologies Limited (the 'Company') for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 24 April 2020 and the Balance Sheet was signed on the Board's behalf by T Metcalfe.

Envirogen Water Technologies Limited is a private limited company limited by shares and incorporated in the United Kingdom and domiciled in England and Wales, registered number 03289389.

2 Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements are prepared in accordance with Finance Reporting Standards 101 "Reduced Disclosure Framework" ("FRS101") and the Companies Act 2006 as applicable to companies using FRS101 . The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

The financial statements have been prepared under the historic cost convention.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

(a) the requirement of IFRS 7 Financial Instruments: Disclosures
(b) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  (1) paragraph 79(a)(iv) of IAS 1
  (2) paragraph 73(e) of IAS 16 Property, Plant and Equipment
  (3) paragraph 118(e) of Intangible Assets
(c) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements
(d) the requirements of IAS 7 Statement of Cash Flows
(e) the requirements of paragraph 17 of IAS 24 Related Party Disclosures
(f) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Where required, equivalent disclosures are given in the group financial statements of Janili S.à r.l.

New Standards, amendments and IFRIC interpretations

IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material impact on the Company's financial statements. This is disclosed in Notes 12 and 21. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the Company's financial statements.

2.2 Going Concern

In line with the Financial Reporting Council guidance on Going Concern issued in April 2016 and taking into account the FRC's guidance on risk management, internal control, related business and financial reporting issued in September 2014, the Directors have undertaken an exercise to review the appropriateness of the continued use of the Going Concern basis. The Company's business activities, together with the factors likely to affect its future development, its financial position and financial risk management position are described in the strategic report.

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and meet its liabilities as they fall due. There are a number of factors that the Directors have had to consider in deciding to prepare the financial statements on a going concern basis.

At 31 December 2019, the Company has net liabilities of £8.7 million (2018: £8.0m) and net current liabilities of £9.1 million (2018: £12.2m). This position is because the Company has incurred significant net losses and negative cash flows during the three years ended 31 December 2018. These have arisen due to the expansion of the Company into more complex and larger projects that it has experienced difficulties executing and the Company contributed to the establishment of Group operations overseas. The loss has significantly reduced in the year ended 31 December 2019 following a restructuring and the focus placed on its core competencies.

2 Principal accounting policies (continued)

2.2 Going Concern (continued)

The Company is dependent on debt financing from its parent undertaking and controlling party, Janili S.à r.l. Janili S.à r.l has confirmed to the Board of Directors of the Company that it will provide adequate financial support to the Company such that the Company can meet its financial obligations as they fall due for at least the next 12 months from the date that the financial statements for the year ended 31 December 2019 are signed. At 31 December 2019, the consolidated financial statements of Janili S.à r.l showed net current liabilities of €1.0 million (2018: €1.9m) and net assets of €7.9 million (2018: €6.9m).

During the year ended 31 December 2019, the operating results of the Group improved significantly to an EBITDA (pre-exceptional costs) of €5.0 million compared to €0.7 million in 2018. There were two significant long-term contracts that were favourably settled in the year, and as a result, cash generated from operations in 2019 was €7.3 million. This has enabled Net Debt (excluding lease liabilities) at 31 December 2019 to reduce to €4.3 million. The Net Debt includes healthy cash resources as this included cash and cash equivalents of €5.0 million.

The Board of Managers of Janili S.á r.l. has prepared forecast cash flows covering the period to 30 June 2021 and these confirm continued operating profits with appropriate cash resources being available to meet the obligations of the Group. These forecasts assume that the financing with Intesa Sanpaolo S.p.A will remain in place and the revolving credit facility that was renewed in March 2020 will be further renewed in December 2020. These forecasts were prepared against the background of the Coronavirus pandemic. The Group provides vital services to many industries in the UK and North America, including support to food and beverage companies, healthcare organisations and significant work in North America to treat contamination levels in a wide range of situations. This work continues in many areas. The Board of Managers of the Group has sensitised its forecasts at various levels of reduced activity and has carefully assessed the likely government support available to the Group in each of the regions in which it operates. The Board of Managers is confident that the range of forecast revenue and operating profit levels in these forecasts will be achieved, and in each case the Group would meet its foreseeable future liabilities as they fall due.

Janili S.à r.l has confirmed to the Board of Directors of the Company that it will provide adequate financial support to the Company such that the Company can meet its financial obligations as they fall due for at least the next 12 months from the date that the financial statements for the year ended 31 December 2019 are signed. Consequently the Directors have a reasonable expectation that the Company has sufficient resources to meet its liabilities as they fall due and believe that it is appropriate to prepare the financial statements on a going concern basis.

2.3 Significant judgements and key sources of estimation uncertainty

The preparation of the Company financial statements requires management to make judgements and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and of the amounts reported for revenue and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Recognition of revenue from rendering of services
The Company recognises revenue from rendering of services by reference to the stage of completion of the respective contract. The stage of completion is determined based on total costs incurred to date for each contract by reference to total estimated costs for the project, taking into account certain milestones to be achieved. Due to the nature of the Company's business, there is a significant amount of management judgement involved in determining the percentage of completion for each contract, which affects the reported value of the assets, liabilities, revenue and expenses presented in these consolidated financial statements. The Board performs regular reviews of the judgments made by the Company with regard to the recognition of revenue and related costs on its most significant revenue contracts.

Development costs
Development costs are capitalised in accordance with the accounting policy given below. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2019, the carrying amount of capitalised development costs was £94,000 (2018: £160,000).

Taxation
Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 9.

2 Principal accounting policies (continued)

2.4 Foreign currency translation

The Company's financial statements are presented in sterling, which is also the Company's functional currency.

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.5 Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period;

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

Customer relationships
The Company acquired the customer relationships of Derwent Water Technologies Limited in 2013. Customer relationships were valued on acquisition and are amortised over a period of 5 years reflecting the expected return on existing customer relationships.

Research and development costs
Research costs are expensed as incurred. Development expenditure is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of the resources to complete the asset and the ability to measure reliably the expenditure during development.

Amortisation
The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

2 Principal accounting policies (continued)

2.6 Intangible assets (continued)

Amortisation (continued)

Such impairment tests are based on a comparison of the undiscounted cash flows to the recorded value of the asset. The estimate of future cash flows is based upon, among other things, assumptions about expected future operating performance. The Company's estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, and changes to its business model or changes in its operating performance. If the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount, the Company would record an impairment loss equal to the extent that the carrying amount exceeds the discounted cash flows.

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Customer relationships	20% straight-line
Research and Development	25% straight line

Impairment

Intangible assets with no indefinite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Such impairment tests are based on a comparison of the undiscounted cash flows to the recorded value of the asset. The estimate of future cash flows is based upon, among other things, assumptions about expected future operating performance. The Company's estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, and changes to its business model or changes in its operating performance. If the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount, the Company would record an impairment loss equal to the extent that the carrying amount exceeds the discounted cash flows.

2.7 Tangible fixed assets

Tangible fixed assets are stated at cost of acquisition or production cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold improvements	20% straight-line
Plant and machinery	10-33% straight-line
Fixtures and fittings	20% straight-line
Motor vehicles	25% straight-line
Research and development	25% straight-line
Loan units	25% straight-line
Software	25% straight-line

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the de-recognition of the asset is included in the income statement in the period of de-recognition.

2.8 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

2 Principal accounting policies (continued)

2.8 Impairment of non-financial assets (continued)

For assets where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the income statement, unless the asset is carried at a revalued amount when it is treated as a revaluation increase.

2.9 Leases

As explained in note 2.1 above, the Company has changed its accounting policy for leases where the Company is the lessee. The new policy is described in note 12 and the impact of the change in note 21.

In the prior year, leases were accounted for as follows:

Company as a lessee
Assets held under finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Company as a lessor
Assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Where the Company transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease.

2.10 Financial Instruments

Financial assets
Financial assets within the scope of IAS 39 are classified as loans and receivables. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs.

The Company's financial assets include cash and short-term deposits and trade and other receivables.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as described below:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. The EIR amortisation is included in finance income in the income statement.

Trade and other receivables
Trade and other receivables, which generally have 30 to 90 day credit terms, are recognised by the Company and carried at original invoice amount less an allowance for any uncollectible or impaired amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when they are identified as being unrecoverable.

Cash and short term deposits
Cash and short term deposits comprise cash at bank and in hand and short term deposits. Short term deposits are defined as deposits with an initial maturity of three months or less.

2 Principal accounting policies (continued)

2.10 Financial Instruments (continued)

Derecognition of financial assets
A financial asset is derecognised when (i) the rights to receive cash flows from the asset have expired or (ii) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets
The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the future estimated cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as loans and borrowings. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. The Company's financial liabilities include trade and other payables and borrowings.

Subsequent measurement
The measurement of financial liabilities depends on their classification as described below:

Trade and other payables
Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Loans and Borrowings
After initial recognition, interest bearings loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

2.11 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Costs incurred in bringing each product to its present location and condition are determined on a first in first out basis and comprise purchase cost, cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

The Company capitalises (within work in progress) the design costs incurred in the proposal phase of a project, representing material and labour costs incurred to design a prototype of the asset to be built for the customer. Initial capitalisation of design costs is based on management's judgement that technological and economic feasibility of the project is confirmed and that it is virtually certain that the work will be won, hence the costs will be recovered.

2.12 Income and deferred taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authority, based on the tax rates and laws that are enacted or substantively enacted by the balance sheet date.

2 Principal accounting policies (continued)

2.12 Income and deferred taxation (continued)

Deferred income tax is recognised in full, using the liability method, in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exception that when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

2.13 Revenue recognition

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and amended in April 2016. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard was applicable to all entities and superseded previous revenue recognition requirements. The Company adopted the new standard on the effective date of 1 January 2018 using the full retrospective method and there was no significant impact on its statement of financial position and equity.

The Company has the following classes of revenue and applies revenue recognition in each area as set out below.

Sale of goods
These consist of consumables, large bespoke systems and small standard systems and are recognised as follows:

- Consumables are purchased from suppliers to hold as stock items or bought specifically to meet specific customer orders. These are shipped by the Company or may go direct to the customer. Revenue is recognised when these are delivered to the customer.
- The Company provides bespoke water filtration systems to customers. These can include a design element, manufactured equipment, installation and commissioning and projects can take between 3 and 18 months to complete. These are recognised over time based on percentage of completion using the expected margin from the contract.
- Smaller systems projects that are standard designs are recognised on these when despatched to a customer.

Rendering of Services
This is generated from annual maintenance contracts that the Company provides to customers, chargeable service work and consumables that are sold by the service team. Revenue is recognised on a straight-line basis on the maintenance contracts over the period of the contract. Revenue is recognised on chargeable service work and any associated consumables sold when the work or visit has been completed or when consumables are delivered to the customer.

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This core principle is delivered in a five-step approach to revenue recognition which the Company has applied as set out below.

Identify the contract(s) with the customer
The contract is an agreement between the Company and the customer and is largely in the form of a purchase order from the customer. For larger and more complex pieces of work this is supported by a more detailed written contract that is tailored to the project. This is the start point to account for the related revenue. In certain circumstances, the contract is modified as additional goods and services are provided. These are agreed as variation orders. The Company does not account for revenue on these until they are approved by the customer.

Identify the separate performance obligations in the contract
A performance obligation is a promise to transfer a good or service to a customer. These are specified in the contracts we undertake with customers.

2 Principal accounting policies (continued)

2.13 Revenue recognition (continued)

Determine the transaction price
The transaction price is the amount of consideration that an entity expects to receive for transferring the promised goods and services in the contract. The consideration is fixed in the Company's contracts. Revenue is measured at the fair value of the consideration received or receivable. This is net of discounts and excludes any value added tax, other sales taxes and duty.

The transaction price should be adjusted for any significant financing component in the arrangement where the period between the transfer of goods and services and payment is greater than one year. This can be when a customer pays in advance or in arrears but does not apply when there are multiple payments over contracts that may take more than one year to complete. In these circumstances, a discount rate is set at the inception of the contract and the amounts received are discounted using this rate. The discount rate used reflects external financing rates and is not amended after the inception of the contract.

The Company has decided to use the practical expedient provided in IFRS 15 and will not adjust the promised amount of the consideration for the effects of a significant financing component in the contracts, where the Company expects at contract inception, that the period between the transfer of service to the customer and when the customer pays for that service will be one year or less. Therefore, for short-term advances, the Company will not account for a financing component.

The Company has two transactions that have a financing component. Under these a plant has been built on a customer site and once commissioned the Company maintains the plant for a ten year period. The customer pays for the work over the ten year period in quarterly instalments. In both cases the build has been completed and the consideration for the plant and service components has been split based on their relative fair values when the plant was completed by reference to the cost of build of the plant. The amount receivable for the plant sale is in substance a finance lease. The lease is treated as an entitlement to receive a stream of payments that are substantially the same as blended principal and interest under a loan agreement. The discount rate applied in calculating the finance costs is the incremental borrowing rate of interest, which is the rate of interest the lessee would have to pay on a similar lease based on the rate at the inception of the lease. The rate used is 4% per annum on both contracts. The service element for both is recognised over the course of the maintenance period.

Allocate the transaction price to separate performance obligations
The transaction price is allocated to the separate performance obligations at the inception of the contract and is not adjusted thereafter. There are no complex variable consideration or cost plus arrangements.

Recognise revenue when (or as) each performance obligation is satisfied
Revenue is recognised when the goods or services are transferred to the customer and the customer obtains control of that goods or service. This is either over time or at a point in time. IFRS 15 states that if any of the following criteria are met that revenue is recognised over time:

- The customer receives and consumes the benefits provided by the entity's performance as the entity performs these.
- The entity's performance creates or enhances a customer controlled asset.
- The entity's performance does not create an asset with an alternative use and the entity has a right to payment for performance completed to date.

Work under service contracts falls into criterion one for recognising revenue over time above. No asset is created and the customer consumes the service over the contract period.

Systems project work falls into criterion three for recognising revenue over time above. The systems are bespoke designs for each customer and fitted into their sites and so have no practical alternative use.

2.14 Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

2.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that a Company incurs in connection with the borrowing funds.

2.16 Exceptional items

The Company presents as exceptional items those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

3 Revenue

The revenue recognised in the income statement is analysed as follows:

	2019	2018
	£'000	£'000
Sale of goods	6,140	9,761
Rendering of services	3,092	3,124
Other income	27	20
	9,259	12,905

An analysis of revenue by geographical area is given below:

	2019	2018
	£'000	£'000
United Kingdom	8,326	11,687
Overseas sales	933	1,218
	9,259	12,905

4 Operating loss

	2019	2018
	£'000	£'000
Operating loss is stated after charging/(crediting):		
Operating lease payments	313	313
Amortisation of intangible assets	135	168
Depreciation of leased fixed assets	-	25
Depreciation of owned fixed assets	117	118
Profit on sale of fixed assets	(3)	-
Depreciation of right-of-use assets	268	-
Foreign exchange (gains)/ losses	(153)	59
Exceptional costs (Note 5)	865	195

The auditors' remuneration for the Company in the years ended 31 December 2018 and 2019 is borne by Envirogen Group UK Limited.

5 Exceptional items

Exceptional items are within adminstrative expenses and consist of the following items:

	2019	2018
	£'000	£'000
Restructuring costs	40	92
Termination of long term contract	825	-
Middle East business closure costs	-	103
	865	195

Restructuring costs
The Company's activities were restructured during 2018 and there were some final costs that were captured in 2019.

Termination of long term contract
As disclosed in note 14, a long-term contract to design, build and operate was settled at a level lower than the long-term trade receivable held.

Middle East business closure costs
The Company incurred costs as part of the exit of the Group from the Middle East.

6 Staff costs and numbers

	2019 £'000	2018 £'000
Wages and salaries	**2,216**	2,664
Social security costs	**269**	331
Other pension costs	**85**	80
	2,570	3,075

Pension costs relate to contributions made to defined contribution pension schemes.

The average monthly number of employees during the year was made up as follows:

	2019 Number	2018 Number
Production	**37**	40
Sales and Marketing	**7**	7
Administration	**10**	11
	54	58

7 Directors' remuneration

The remuneration of two directors are paid by the ultimate parent company which makes a management recharge to the Company. The directors are directors of the parent company and a number of fellow subsidiaries, and it is not possible to make an accurate apportionment of his remuneration in respect of each of the subsidiaries. Accordingly, the above details include no remuneration in respect of these two directors. Their total remuneration is included in the aggregate of directors' remuneration disclosed in the financial statements of the parent company.

The other directors were paid by the Company. There was one director (2018: two) remunerated by the Company

	2019 £'000	2018 £'000
Salaries and other short-term employee benefits	**82**	136
Compensation for loss of office	**-**	84
Company contributions to defined contribution pension schemes	**9**	12
	91	232

In respect of the highest paid director	2019 £'000	2018 £'000
Salary (including severance costs)	**82**	128
Defined contribution pension scheme	**9**	2

8 Finance income/costs

	2019 £'000	2018 £'000
Finance income		
Finance income receivable from finance leases (contract assets)	**153**	186
Finance costs		
Finance lease interest payable	**-**	8
On lease liabilities	**25**	-
Bank interest payable	**13**	3
Other interest payable	**-**	24
	38	35

Envirogen Water Technologies Limited
Notes to the financial statements for the year ended 31 December 2019 (continued)

9 Income tax expense

Tax charged in the Statement of Comprehensive Income

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax	-	-
Total current tax charge	-	-
Deferred tax:		
Origination and reversal of timing differences	-	-
Tax expense included in the Statement of Comprehensive Income	-	-

A reconciliation of the income tax credit applicable to the accounting loss before tax at the statutory income tax rate to total taxation for the Company is below. The tax charge for the year is lower (2018: lower) than the standard UK corporation tax rate of 19.00% (2018: 19.00%).

	2019 £'000	2018 £'000
Loss before taxation	(749)	(707)
Loss before taxation multiplied by the standard UK corporation tax rate of 19.00% (2018: 19.00%)	(142)	(134)
Effects of:		
Expenses not deductible for tax purposes	169	177
Accelerated capital allowances	(5)	(5)
Tax effect of losses carried forward	(22)	(38)
Tax expense	-	-

Unrecognised tax losses

The Company has UK tax losses at 31 December 2019 of £7,692,000 (2018: £7,677,000) that are available indefinitely for offset against future taxable profits of the Company. Deferred tax assets of £1,289,000 (2018: £1,357,000) have not been recognised in respect of these losses as there is uncertainty over the recoverability.

Factors affecting current and future tax charges

Further reductions to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2018. These reduce the main rate to 17% from 1 April 2020. In March 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%). The unprovided deferred tax asset has been calculated at 17% as the announcement to change the rate was made after the balance sheet date.

10 Intangible assets

	Research and development £'000	Customer relationships £'000	Software £'000	Total £'000
Cost				
As at 1 January 2019	390	998	61	1,449
Additions	69	-	-	69
Disposals	-	-	(61)	(61)
Reclassification from property, plant and equipment	282	-	-	282
As at 31 December 2019	**741**	**998**	**-**	**1,739**
Accumulated amortisation				
As at 1 January 2019	289	998	61	1,348
Amortisation for the year	135	-	-	135
Disposals	-	-	(61)	(61)
Reclassification from property, plant and equipment	223	-	-	223
As at 31 December 2019	**647**	**998**	**-**	**1,645**
Net book value				
As at 31 December 2018	101	-	-	101
As at 31 December 2019	**94**	**-**	**-**	**94**

Intangible assets amortisation is recorded in administrative expenses in the income statement.

11 Property, plant and equipment

	Leashold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Research and development £'000	Loan units £'000	Software £'000	Total £'000
Cost								
As at 1 January 2019	42	141	240	100	282	236	61	1,102
Additions	10	105	10	-	-	6	-	131
Reclassification to intangible assets	-	-	-	-	(282)	-	-	(282)
Reclassification	5	-	(5)	-	-	-	-	-
Disposals	-	(81)	(103)	(84)	-	(182)	(8)	(458)
As at 31 December 2019	**57**	**165**	**142**	**16**	**-**	**60**	**53**	**493**
Accumulated depreciation								
At 1 January 2019	24	140	158	49	223	228	61	883
Charge for the year	13	48	52	1	-	3	-	117
Reclassification to intangible assets	-	-	-	-	(223)	-	-	(223)
Disposals	-	(81)	(103)	(34)	-	(182)	(8)	(408)
As at 31 December 2019	**37**	**107**	**107**	**16**	**-**	**49**	**53**	**369**
Net book value								
As at 31 December 2019	**20**	**58**	**35**	**-**	**-**	**11**	**-**	**124**
Net book value								
As at 31 December 2018	18	1	82	51	59	8	-	219

Propert, plant and equipment depreciation is recorded in administrative expenses in the income statement.

12 Leases

This note provides information for leases where the Company is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2019	1 January 2019*
	£'000	£'000
Right-of-use assets		
Buildings	**355**	442
Equipment	**17**	22
Vehicles	**185**	210
	557	674
Lease liabilities		
Current	**165**	242
Non-current	**383**	432
	548	674

* In the previous year, the Company only recognised lease assets and lease liabilities in relation to leases that were classified as 'Finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Company's borrowings. The remaining finance lease was settled in January 2019. The provisions of IFRS 16 was adopted on 1 January 2019 and for adjustments recognised on its adoption on 1 January 2019, please refer to note 21.

Additions to the right-of-use assets during the 2019 financial year were £171,000.

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019	2018
	£'000	£'000
Depreciation charge on right-of-use assets		
Buildings	**87**	-
Equipment	**4**	-
Vehicles	**177**	-
	268	-
Interest expense (included in finance costs)	**25**	-

There was no expenditure relating to leases of low-value assets or short-term leases that are not shown above.

There was no expenditure incurred relating to variable lease payments.

The total cash outflow for leases in 2019 was £195,000.

(iii) The Company's leasing activities and how these are accounted for

The Company leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods up to 10 years, but may have extension options as described in (iv) below.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

12 Leases (continued)

(iii) The Company's leasing activities and how these are accounted for (continued)

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases, see note 21 for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company which do not have recent third party financing; and
- Makes adjustments specific to the lease. - for example, term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs, if any are required.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Company.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets can be recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(iv) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

13 Inventories

	2019 £'000	2018 £'000
Work in progress	**454**	403
Finished goods and goods for resale	**743**	717
	1,197	1,120

Inventories recognised as an expense and included in cost of sales amounted to £5,180,000 (2018: £8,734,000).

Inventories are stated after provisions for impairment of £54,000 (2018: £48,000). The movement in the provision is recognised in cost of sales and reflects additional inventory items requiring a provision.

14 Trade and other receivables

	2019 £'000	2018 £'000
Current financial assets at amortised cost		
Receivables from trade customers	**2,602**	2,418
Contract assets	**4**	487
Amounts owed by group undertakings	**924**	508
Other debtors	**30**	33
Prepayments and accrued income	**247**	214
Total	**3,807**	3,660
Non-Current financial assets at amortised cost		
Contract assets	-	3,900
Total	**3,807**	7,560

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. Trade receivables are stated after provisions for impairment of £56,000 (2018: £104,000). All amounts included in accounts receivable from trade customers are expected to be recoverable, with any amounts that are not expected to be recovered being provided at 100%.

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Contract assets

The Company entered into a multiple-element sale agreements in prior years with two of its customers for the design, build, installation and servicing/maintenance of bespoke trade effluent plants. Payments under the agreements were to be made over a 10 year contract terms. The amounts owed on both these contracts are within the contract asset balances above. Both of these agreements were settled in the 2019 financial year. One customer, as anticipated, exercised their break clause and the provision held against the contract asset was released. The other customer settled the contract asset and the subsequent loss is included as an exceptional item in note 5.

The accounting for these agreements was as follows:

Upon inception of the agreement, the various elements were identified as follows:

- The bespoke plant was sold to the customer as a capital asset; and
- A separate service and maintenance contract relating to the plant existed.

The total receivable is disclosed above as a contract asset and represents the debtor arising under this contract as part of the transaction which is, in substance, a finance lease.

- The plant has been sold and the lease is treated as an entitlement to receive, and an obligation to make, a stream of payments that are substantially the same as blended principal and interest under a loan agreement; and
- The service contract was treated as a standalone contract since the option existed to terminate the service element of the contract, prior to its commencement at the commissioning date. The service element was recognised over the course of the maintenance period, as is the case with similar contracts undertaken by the Company.

14 Trade and other receivables (continued)

The service element and plant sales have been split in accordance with IFRIC 4.13 based on their relative fair values at inception. The discount rate applied in calculating the finance costs was the incremental borrowing rate of interest, which was the rate of interest the lessee would have to pay on a similar lease based on the rate at the inception of the lease. The rate used was 4% per annum.

Fair Values

Future minimum lease receivables under non-cancellable finance leases, together with the present value of the net minimum lease payments are presented in Note 16 below. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining the fair value, the Group has considered the creditworthiness of the customer and other risks.

The loan represented the sale of the plant, subject to the finance lease only. The carrying value and the fair value of one of the arrangements at 31 December 2018 were considered to be the same since there were no indications that the debtor would not be recoverable in full. In addition, the cash flows were fixed in advance and therefore were not subject to fluctuations in the market or interest rates. A provision of £457,000 was held against the other arrangement at 31 December 2018 as it was expected that a break clause on the contract would be exercised. The amounts owed at 31 December 2019 were £nil as both contracts were settled during the 2019 financial year. The amounts owed are disclosed in Note 17.

15 Creditors: Amounts falling due within one year

	2019	2018
	£'000	£'000
Trade creditors	**366**	1,490
Amounts owed to group undertakings	**13,867**	14,216
Lease liabilities (note 12)	**165**	-
Other creditors including taxation and social security:		
PAYE and Social security	**88**	98
VAT	**839**	155
Other creditors	**8**	9
Amounts due on finance leases	**-**	10
Accruals and deferred income	**1,036**	1,334
	16,369	17,312

16 Creditors: Amounts falling due after more than one year

	2019	2018
	£'000	£'000
Lease liabilities (note 12)	**383**	-
Amounts due on finance leases	**-**	47
	383	47

17 Obligations under leases and hire purchase contracts

Commitments under operating leases – Company as lessee

The Company has entered into commercial leases in certain motor vehicles and items of machinery, in addition to land and buildings. Lease contracts for motor vehicles and machinery are for 3 with no renewal options in the contracts. Land and building leases have a remaining period between 5 and 6 years. There are no restrictions placed upon the Company by entering into these leases.

From 1 January 2019, the Group has recognised right-of-use assets for these leases. See notes 12 and 21 for further information.

Future minimum rental payments under non-cancellable operating leases as at 31 December are, as follows:

	2019	2018
	£'000	£'000
Operating leases which expire:		
Within one year	-	249
After one year but less than five years	-	359
After five years	-	75
	-	683

Commitments under finance leases – Company as lessee

	2019	2018
	£'000	£'000
Amounts payable under finance leases:		
Within one year	-	10
After one year but less than five years	-	47
	-	57

Finance lease and hire purchase commitments – Company as Lessor

As disclosed in Note 14, the Company has entered into finance leases with two of its customers in prior years for the design, build and installation of bespoke trade effluent plants with subsequent service/maintenance provided relating to the plant. Payments for the plant were made over a 10 year contract term under a finance lease in which the Company operates as a lessor. There is no transfer of the asset to the customer at the end of the lease.

Future minimum lease receivables under non-cancellable finance leases, together with the present value of the net minimum lease payments are as follows:

	2019	2018
	£'000	£'000
Minimum payments		
Within one year	-	653
After one year but less than five years	-	2,505
After five years	-	1,488
	-	4,646
Less amounts representing finance charges	-	(728)
Present value of minimum lease payments	-	3,918

	2019	2018
	£'000	£'000
Present value of payments:		
Within one year	-	487
After one year but less than five years	-	2,043
After five years	-	1,388
Present value of minimum lease payments	-	**3,918**

The total finance income recognised during the year was £157,000 (2018: £186,000).

17 Obligations under leases and hire purchase contracts (continued)

The present value of minimum lease payments is after providing for the break clause on one of the contracts being exercised. The provision held was £457,000.

These agreements were settled in the 2019 financial year. One customer, as anticipated, exercised their break clause and the provision against the trade receivable was released. The other customer settled the trade receivable and the subsequent loss is included is an exceptional item in note 5.

18 Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries.

19 Called up share capital

	Number of shares	2019 £	2018 £
Ordinary share capital of £1 each - authorised, allotted, called up and fully paid			
At 1 January and 31 December	**100**	**100**	100

20 Ultimate parent company

The company's immediate parent undertaking is Envirogen Group UK Limited, a company incorporated in United Kingdom. The Company is a wholly owned subsidiary of Envirogen Group UK Limited.

The company's ultimate parent undertaking is Janili S.à r.l., a company incorporated in Luxembourg. The registered address of Janili S.à r.l is 19, rue de Bitbourg, L-1273 Luxembourg. The results of Envirogen Water Technologies Limited are included in the Consolidated Financial Statements of Janili S.à r.l; these are the smallest and largest Consolidated Financial Statements that the results are consolidated into. The Consolidated Financial Statements may be obtained from 19, rue de Bitbourg, L-1273 Luxembourg.

There is no ultimate controlling party.

21 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Company's Consolidated Financial Statements.

As indicated in note 2, the Company has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the Standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.0%.

(i) Practical expedients applied

The Company applied the following:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

21 Changes in accounting policies (continued)

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) Measurement of lease liabilities

	£'000
Operating lease commitments disclosed as at 31 December 2018	**683**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(70)
Add: contracts reassessed as lease contracts	61
Lease liability recognised as at 1 January 2019	**674**
Of which are:	
Current lease liabilities	242
Non-current lease liabilities	432
	674

(iii) Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by £674,000
- Lease liabilities – increase by £674,000

There was no change to retained earnings on 1 January 2019.

(v) Lessor accounting

The Company did not need to make any adjustments to the accounting for assets held as a lessor under operating leases (see note 2) as a result of the adoption of IFRS 16.