INEOS Infrastructure (Grangemouth) Limited

Annual report and financial statements

Registered number 6981874

31 December 2017

Contents

Strategic report for the year ended 31 December 2017

The Directors present their strategic report on INEOS Infrastructure (Grangemouth) Limited for the year ended 31 December 2017.

Results and dividends

The loss for the financial year before taxation was £2,088,000 *(2016: loss of £946,000)*. The directors do not propose the payment of a dividend *(2016: £nil)*.

Review of business and future developments

The Company operates a 140 MW power station which provides steam and power to the INEOS, Petroineos and BP businesses located at the petrochemical site at Grangemouth, Scotland. The Company also operates 3 jetties which are used to import and export raw materials and products on behalf of the INEOS and Petroineos businesses. Part of the steam and electricity requirements of the Grangemouth site are sourced from a stand alone CHP plant owned by Grangemouth CHP Limited ("GCHPL"), via a back-to-back agreement with Petroineos Manufacturing Scotland Limited which holds the contract with GCHPL.

Additionally, the Company operates and maintains plants owned by the INEOS and Petroineos businesses, such as jetties, the effluent treatment plant, cooling water systems, admiralty tankage and tank farms.

The Company is the main utilities supplier to the customers located on the Grangemouth site. Following strategic investment by INEOS to secure long term future of the chemicals business in Grangemouth, the directors are confident that the Company is well positioned to play a key part in the future energy and utilities strategy of the Grangemouth site.

For 2018 and for future years it is the expectation that the Company will continue with its current principal activities.

Strategy

The Company's strategic aim is to maintain a competitive cost base for the operating and energy costs of the Grangemouth site by the continual development of energy and efficiency initiatives. The strategic aim on energy costs will be delivered through the expansion of the Company's customer base at Grangemouth by attracting new industrial and chemical developments in the area to improve its overall cost efficiency. Success will be determined by the implementation of key initiatives that are encapsulated by the Company's core aims – business focus, process optimisation, cost control and energy efficiency improvements.

Key performance indicators (KPIs)

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Strategic report for the year ended 31 December 2017 *(continued)*

Principal risks and uncertainties

The directors are confident that the Company is structured and positioned in a manner that will enable it to meet the demands of its markets and business environment.

Insurances are in place to mitigate financial disadvantages from potential liabilities and damages. The insurance cover is reviewed on an annual basis. The main risks are covered by the INEOS Group or the Petroineos JV policies. The main policies are:

- Property Damage & Business interruption
- General and Products Liability
- Executive Risk
- Contractors' All Risk

On behalf of the board

F F Demay
Director
29 June 2018

Directors' report for the year ended 31 December 2017

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

Principal activities

The Company is engaged in the provision of energy and services to businesses located at the Grangemouth site.

It is the intention of the directors that the above business of the Company will continue for the foreseeable future.

Results and dividends

Results and dividends are discussed in the Strategic report.

Future developments

Future developments are discussed in the Strategic report.

Financial risk management,

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company where appropriate (e.g. by passing risks on to its customers in the relevant contractual agreements).

The exposure of the Company to foreign exchange risks is very limited.

The Company is reliant on funding from Petroineos Trading Limited to meet the anticipated needs of the Company. Petroineos Trading Limited holds significant banking facilities and these are supported by a letter of comfort from PetroChina Company Limited, these facilities are uncommitted due to a commercial arrangement between PetroChina Company Limited and the banks.

Directors

The directors who held office during the year and up to the date of signing of the financial statements were as follows:

A R Gardner	Resigned 30th November 2017
R E Mann	Resigned 17th August 2017
J P McNally	
X Zhang	Resigned 17th August 2017
F F Demay	Appointed 17th August 2017
P Q Grant	Appointed 30th November 2017
Y Peng	Appointed 17th August 2017
G Wang	Appointed 17th August 2017

Directors' report for the year ended 31 December 2017 *(continued)*

Employees

The Company has developed voluntary practices and procedures for employee involvement appropriate to their own circumstances and needs. The Company encourages this approach to provide information and consultation and believes that this promotes a better understanding of the issues facing the individual business in which the employee works. The Company places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the Company by issuing communications on the company intranet, holding information meetings hosted by the board and operating a bonus scheme linked to business performance. The Company consults employees or their representatives through the works council on a regular basis so that the views of the employees can be taken into account in making decisions that are likely to affect their interests.

The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Health & safety

Our facilities and operations are subject to a wide range of health, safety, security and environmental ("HSSE") laws and regulations in all of the jurisdictions in which we operate. These requirements govern, among other things, the manufacture, storage, handling, treatment, transportation and disposal of hazardous substances and wastes, wastewater discharges, air emissions, noise emissions, human health and safety, process safety and risk management and the clean-up of contaminated sites. Many of our operations require permits and controls to monitor or prevent pollution. We have incurred, and will continue to incur, substantial ongoing capital and operating expenditures to ensure compliance with current and future HSSE laws, regulations and permits or the more stringent enforcement of such requirements.

Our operations are currently in material compliance with all HSSE laws, regulations and permits. We actively address compliance issues in connection with our operations and properties and we believe that we have systems in place to ensure that environmental costs and liabilities will not have a material adverse impact on us.

Directors' report for the year ended 31 December 2017 *(continued)*

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS "102 The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

Statement of disclosure of information to auditors

In the case of each director in office at the date the Directors' report is approved

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent auditors

During the year PricewaterhouseCoopers LLP were re-appointed as auditors of the Company.

On behalf of the board

F F Demay
Director
29 June 2018
Registered number 6981874

Independent auditors' report to the members of INEOS Infrastructure (Grangemouth) Limited

Report on the financial statements

Opinion

In our opinion, INEOS Infrastructure (Grangemouth) Limited's 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 and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 Annual report and financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2017; the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement 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 when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate;
- 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.

Independent auditors' report to the members of INEOS Infrastructure (Grangemouth) Limited *(continued)*

Reporting on other information

The other information compromises 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 2017 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.

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 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.

Independent auditors' report to the members of INEOS Infrastructure (Grangemouth) Limited *(continued)*

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 it 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.

Ian Marsden

Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle Upon Tyne
29 June 2018

Profit and Loss Account
for the year ended 31 December 2017

	Note	**2017** **£000**	2016 £000
Turnover	*2*	**210,871**	183,765
Cost of sales		**(209,020)**	(184,545)
Gross profit/(loss)		**1,851**	(780)
Administrative Expenses		**(2,886)**	-
Operating loss	*3*	**(1,035)**	(780)
Interest receivable and similar income	*6*	**218**	38
Interest payable and similar expenses	*7*	**(1,271)**	(204)
Loss before taxation		**(2,088)**	(946)
Tax on loss	*8*	**463**	(617)
Loss for the financial year		**(1,625)**	(1,563)

All activities of the Company relate to continuing operations.

Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	**2017** **£000**	2016 £000
Loss for the financial year		**(1,625)**	(1,563)
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss			
Deferred tax arising on actuarial gains/(losses) in the pension scheme	*8*	**(3,050)**	3,764
Remeasurement of post employment benefits	*15*	**17,940**	(19,453)
Other comprehensive income/(expense) for the year, net of income tax		**14,890**	(15,689)
Total comprehensive income/(expense) for the year		**13,265**	(17,252)

Balance Sheet

as at 31 December 2017

	Note	2017 £000	2016 £000
Fixed assets			
Intangible assets	*9*	**2,464**	452
Tangible assets	*10*	**49,393**	54,126
		51,857	54,578
Current assets			
Debtors (including £4,400,000 *(2016:£6,987,000)* due after more than one year)	*11*	**27,431**	38,179
Cash at bank and in hand		**8,346**	1,831
		35,777	40,010
Creditors: amounts falling due within one year	*12*	**(36,287)**	(37,787)
Net current (liabilities) / assets		**(510)**	2,223
Total assets less current liabilities		**51,347**	56,801
Creditors: amounts falling due after more than one year	*13*	**(24,289)**	(23,576)
Provisions for liabilities			
Post employment benefits	*15*	**(4,316)**	(23,748)
Net assets		**22,742**	9,477
Capital and reserves			
Called up share capital	*16*	**-**	-
Profit and loss account		**22,742**	9,477
Total equity		**22,742**	9,477

These financial statements on pages 9 to 32 were approved by the board of directors on 29 June 2018 and were signed on its behalf by:

F F Demay
Director

Company registered number: 6981874

Statement of Changes in Equity

for the year ended 31 December 2017

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2016	-	26,729	26,729
Total comprehensive expense for the year, comprising			
Loss for the financial year	-	(1,563)	(1,563)
Other comprehensive expense	-	(15,689)	(15,689)
Total comprehensive expense for the year	-	(17,252)	(17,252)
Balance at 31 December 2016	**-**	**9,477**	**9,477**

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2017	-	9,477	9,477
Total comprehensive income for the year, comprising			
Loss for the financial year	-	(1,625)	(1,625)
Other comprehensive income	-	14,890	14,890
Total comprehensive income for the year	-	13,265	13,265
Balance at 31 December 2017	**-**	**22,742**	**22,742**

Cash Flow Statement

for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Loss for the financial year		**(1,625)**	(1,563)
Adjustments for:			
Interest receivable and similar income	*6*	**(218)**	(38)
Interest payable and similar expenses	*7*	**1,271**	204
Taxation	*8*	**(463)**	617
Loss on disposal of intangible assets	*9*	**2,298**	1,611
Depreciation, amortisation and impairment	*10*	**6,763**	7,014
		9,651	7,845
Decrease/(increase) in trade and other debtors		**2,346**	(5,942)
(Decrease)/increase in trade and other creditors		**(89)**	11,600
Decrease in provisions and employee benefits		**(2,386)**	(2,306)
		(129)	3,352
Net cash generated from operating activities		**7,897**	11,197
Cash flows from investing activities			
Interest received		**218**	38
Acquisition of intangible assets		**(4,310)**	-
Acquisition of tangible fixed assets		**(2,422)**	(2,756)
Net cash used in investing activities		**(6,514)**	(2,718)
Cash flows from financing activities			
Interest paid		**(682)**	(6)
Loans granted from/(repaid to) related parties		**5,814**	(6,776)
Net cash generated from/(used in) financing activities		**5,132**	(6,782)
Net increase in cash and cash equivalents		**6,515**	1,697
Cash and cash equivalents at 1 January		**1,831**	134
Cash and cash equivalents at 31 December		**8,346**	1,831

Notes to the financial statements for the year ended 31 December 2017

(forming part of the financial statements)

1 Accounting policies

INEOS Infrastructure (Grangemouth) Limited (the "Company") is a private limited company limited by shares incorporated and registered in England. The registered office address is The Adelphi, 1-11 John Adam Street, London WC2N 6HT.

These financial statements were prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified at fair value through the profit or loss or as available-for-sale. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

1.2 Going concern

The Company meets its day-to-day working capital requirements through its related party current account facility. The directors have received confirmation from Petroineos Trading Limited and PetroChina company Limited that they will provide the company with the necessary support to meet its liabilities for a period of at least 12 months from the date of these financial statements. The Company's forecasts and projections, taking into account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency 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. Non-monetary assets and liabilities that are measured in 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. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

1 Accounting policies *(continued)*

1.4 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, 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.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. Transaction costs are allocated between the debt component and the equity component on the basis of their relative fair values.

1.5 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognition in profit or loss. Other investments are measured at cost less impairment in profit or loss.

Investments in subsidiaries, jointly controlled entities and associates

These are separate financial statements of the Company. Investments in subsidiaries, jointly controlled entities and associates are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents 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 and cash equivalents for the purpose only of the cash flow statement.

Notes to the financial statements for the year ended 31 December 2017

(forming part of the financial statements) *(continued)*

1 Accounting policies *(continued)*

1.6 Other financial instruments

Financial instruments not considered to be Basic Financial Instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost or effort.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.14 below.

The Company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Depreciation commences from the date an asset is brought into service. Land and assets in the course of construction are not depreciated. The estimated useful lives are as follows:

- buildings 20 years
- plant and equipment 4-20 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

Notes to the financial statements for the year ended 31 December 2017

(forming part of the financial statements) *(continued)*

1 Accounting policies *(continued)*

1.8 Intangible assets, goodwill and negative goodwill

Other intangible assets

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses. For further information on capitalised environmental certificates, refer to emission trading scheme policy.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful live 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.

1.9 Government grants

Government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred.

1.10 Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than 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 value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire entity into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

Notes to the financial statements for the year ended 31 December 2017

(forming part of the financial statements) *(continued)*

1 Accounting policies *(continued)*

1.10 Impairment excluding deferred tax assets(continued)

Non-financial assets (continued)

An impairment loss is revised if and only if the reasons for the impairment have ceased to apply.

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 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.

1.11 Post employment benefits

Defined contribution plan

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 the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plan

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 plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability/(asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/(asset) is recognised in other comprehensive income in the period in which it occurs.

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.

1.12 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 recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Notes to the financial statements for the year ended 31 December 2017

(forming part of the financial statements) *(continued)*

1 Accounting policies *(continued)*

1.13 Turnover

Turnover, which is stated net of value added tax, represents the recovery of variable and fixed costs from its principal customers Petroineos Manufacturing Scotland Limited and INEOS Chemicals Grangemouth Limited under the terms of the various supply and services contracts between the companies. This is recognised on an accruals basis with any cash received early in relation to these services recognised as deferred income and released to the profit and loss account in the period the costs are recognised. Additionally, the Company has contractual energy supply and service agreements with third parties in the area. Under these contracts, INEOS Infrastructure (Grangemouth) Limited provides energy (e.g. steam & power) as well as services (e.g. jetty import & export services, operating & maintenance services) for which the Company charges a mark-up. These are charged on monthly basis and are recognised on an accruals basis, as the services and supplies are delivered.

1.14 Expenses

Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease 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 using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and 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 the profit and loss account (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/are expensed as incurred.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

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

Notes to the financial statements for the year ended 31 December 2017

(forming part of the financial statements) *(continued)*

1 Accounting policies *(continued)*

1.15 Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, associates and joint ventures to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.16 Emission trading scheme

The Company participates in the EU Emissions Trading Scheme. The Scheme encourages companies to reduce carbon emissions by offering financial incentives if they achieve their annual reduction targets. If a company reduces emissions beyond their target then the surplus may be traded in the form of emissions permits.

The incentive money due from the EU Emissions Trading Scheme is recognised in the profit and loss account once the reduction targets have been met. The emissions permits allocated under the Scheme are at nil cost. The Company recognises the revenue from such permits upon their sale to third parties.

Emissions allowances purchased from third parties are recognised as an intangible asset based on the cost associated with the purchase. The emission allowances are subject to impairment under the indefinite lived intangible asset impairment model. There is no amortisation of these allowances. The costs of the allowances are recognised as a disposal and expensed to the profit and loss as they are used.

The Company recognises a provision for emissions produced. The provision is measured at the carrying amount of the emission rights held (nil if granted, otherwise at cost) or, in the case of a shortfall, at the current fair value of the emission rights needed.

2 Turnover

Turnover, which is stated net of value added tax, represents the recovery of variable and fixed costs under the terms of various supply and services contracts. These are charged on a monthly basis and are recognised on an accruals basis, as the services and supplies are delivered. All turnover relates to activities in the UK.

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

3 Operating loss

Included in loss are the following:

	2017 £000	2016 £000
Depreciation of tangible assets (note 10)	**6,763**	7,014
Exchange gain on foreign currency	**(41)**	(392)

Auditors' remuneration:

	2017 £000	2016 £000
Audit of these financial statements	**25**	24

4 Staff numbers and costs

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

	Number of employees 2017	2016
Operations	**223**	195
Other Support Services	**28**	27
	251	222

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	**13,989**	12,509
Social security costs	**1,548**	1,387
Other pension costs defined contribution plans (note 15)	**925**	882
Other pension costs defined benefit plans (note 15)	**305**	110
	16,767	14,888

5 Directors' remuneration

No directors received any fees or remuneration in respect of their services as a director of the Company during the financial year *(2016: nil)*.

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

6 Interest receivable and similar income

	2017 £000	2016 £000
Interest income on financial assets not at fair value through profit or loss	218	38
Total interest receivable and similar income	218	38

7 Interest payable and similar expenses

	2017 £000	2016 £000
Interest expense on financial liabilities measured at amortised cost	682	6
Net interest on net defined benefit pension plan liabilities	589	198
Total interest payable and similar charges	1,271	204

8 Tax on loss

Total tax (credit) / expense recognised in the profit and loss account

	2017 £000	2016 £000
UK Corporation tax		
UK Corporation tax on losses of the year	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	(355)	617
Adjustments in respect of prior periods	(108)	-
Total deferred tax	(463)	617
Tax on loss	(463)	617

Income tax recognised in other comprehensive income/(expense)

	2017 £000	2016 £000
Deferred tax arising on actuarial gains/(losses) in the pension scheme	(3,050)	3,764

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

8 Tax on loss *(continued)*

Reconciliation of effective tax rate

	2017 £000	2016 £000
Loss before taxation	**(2,088)**	(946)
Tax using the UK corporation tax rate of 19.25% *(2016 : 20%)*	**(402)**	(189)
Reduction in tax rate on deferred tax balances	**47**	806
Accelerated capital allowances and other differences	**-**	-
Adjustments in respect of prior periods	**(108)**	-
Total tax (credit) / expense included in profit or loss	**(463)**	617

The UK Corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017. The rate will reduce further to 17% from 1 April 2020. Any deferred tax expected to reverse after 1 April 2020 has been remeasured using the rates substantively enacted 31 December 2017.

9 Intangible assets

	Environmental Certificates £000
Cost	
Balance at 1 January 2017	452
Acquisition	4,310
Disposals	(2,298)
Balance at 31 December 2017	2,464
Accumulated amortisation and impairment	
Balance at 1 January and 31 December 2017	-
Net book value	
At 31 December 2016	452
At 31 December 2017	**2,464**

For further information on capitalised environmental certificates, refer to emission trading scheme accounting policy 1.16.

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

10 Tangible assets

	Land and buildings £000	Plant and Equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2017	50	89,736	3,209	92,995
Additions	-	-	2,030	2,030
Transfer	-	913	(913)	-
Balance at 31 December 2017	50	90,649	4,326	95,025
Accumulated depreciation				
Balance at 1 January 2017	(28)	(38,841)	-	(38,869)
Depreciation charge for the year	(5)	(6,758)	-	(6,763)
Balance at 31 December 2017	(33)	(45,599)	-	(45,632)
Net book value				
At 31 December 2016	22	50,895	3,209	54,126
At 31 December 2017	**17**	**45,050**	**4,326**	**49,393**

Land and Buildings

The net book value of land and buildings comprises:

	2017 £000	2016 £000
Freehold	17	22

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

11 Debtors

	2017 £000	2016 £000
Trade debtors	**16,784**	17,111
Other debtors	**4,104**	9,916
Deferred tax assets (see note 14)	**4,400**	6,987
Prepayments and accrued income	**2,143**	4,165
	27,431	38,179
Due within one year	**23,031**	31,192
Due after more than one year	**4,400**	6,987
	27,431	38,179

12 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	**12,086**	9,923
Other creditors	**-**	796
Taxation and Social Security	**433**	436
Accruals and deferred income	**23,768**	26,632
	36,287	37,787

13 Creditors: amounts falling due after more than one year

	2017 £000	2016 £000
Accruals and deferred income	**24,289**	23,576

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

14 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
Accelerated capital allowances	**3,262**	2,693	**-**	-	**3,262**	2,693
Post employment benefits	**774**	3,930	**-**	-	**774**	3,930
Unused tax losses	**364**	364	**-**	-	**364**	364
Net tax assets	**4,400**	6,987	**-**	-	**4,400**	6,987

The directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset on accelerated capital allowance and short term timing differences. Where there is uncertainty of the reversal of such differences, these amounts remain unprovided.

15 Post employment benefits

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the years shown.

Net pension asset /(liability)

	2017	2016
	£000	£000
Total defined benefit asset	**111,129**	105,071
Total defined benefit liability	**(115,445)**	(128,819)
Net liability for defined benefit obligations (see following table)	**(4,316)**	(23,748)

Movements in present value of defined benefit obligation

	2017	2016
	£000	£000
At 1 January	**128,819**	93,097
Current service cost	**305**	110
Interest expense	**3,314**	3,469
Remeasurement: actuarial (gains)/losses	**(8,390)**	34,921
Benefits paid	**(8,603)**	(2,778)
At 31 December	**115,445**	128,819

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

15 Post employment benefits *(continued)*

Movements in fair value of plan assets

	2017 £000	2016 £000
At 1 January	**105,071**	86,804
Interest income	**2,725**	3,271
Remeasurement: return on plan assets less interest income	**9,550**	15,468
Contributions by employer	**2,386**	2,306
Benefits paid	**(8,603)**	(2,778)
At 31 December	**111,129**	105,071

Expense recognised in the profit and loss account

	2017 £000	2016 £000
Current service cost	**305**	110
Interest cost on defined benefit obligation	**3,314**	3,469
Interest income on assets	**(2,725)**	(3,271)
Total expense recognised in profit or loss	**894**	308

The fair value of the plan assets was as follows:

	2017 £000	2016 £000
Equities	**44,012**	52,816
Government debt	**31,206**	22,133
Corporate bonds	**11,296**	9,152
Property	**12,843**	12,207
Cash and cash equivalents	**471**	412
Other quoted securities	**11,301**	8,351
	111,129	105,071

The return on the plan assets was as follows:

	2017 £000	2016 £000
Interest income	**2,725**	3,271
Return on plan assets less interest income	**9,550**	15,468
Total return on plan assets	**12,275**	18,739

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

15 Post employment benefits *(continued)*

The Company operates a defined benefit pension scheme, the scheme covers employees of INEOS Infrastructure (Grangemouth) Limited. The scheme is managed by Trustees, who are directors of Innovene Pension Plan which has a trust deed in favour of INEOS Infrastructure (Grangemouth) Limited. The scheme is now closed to new entrants and frozen to future service accrual.

In accordance with UK GAAP, pension charges in relation to the Innovene Pension Plan have been accounted for under FRS 102 in these financial statements. The scheme is of a defined benefit type under which benefits are based on employees' years of service and final remuneration.

The most recent actuarial valuation of the scheme was carried out at December 2014.

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

	2017	2016
	%	%
Discount rate	**2.70**	2.60
Rate of price inflation	**3.20**	3.30
Rate of increase in pensions (in payment)	**3.00**	3.00
Rate of increase in deferred benefits	**3.20**	3.30

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on 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
Current pensioner aged 65	**22.04 – 22.87**	22.04 – 22.87
Future retiree upon reaching 65	**23.30 – 23.73**	23.30 – 23.73

Funding

The Company expects to contribute £2,655,000 to its closed defined benefit scheme in 2018 under a deficit reduction program.

Defined contribution plans

The Company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £925,000 *(2016: £882,000)*.

16 Called up share capital

	Ordinary shares
	2017
On issue at 1 January and 31 December 2017	
- fully paid	100

	2017	2016
	£000	£000
Allotted, called up and fully paid		
Ordinary shares of $1 each	-	-

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.

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

17 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 £000	2016 £000
Less than one year	**577**	577
Between one and five years	**3,257**	3,164
More than five years	**12,079**	12,749
	15,913	16,490

During the year £704,000 was recognised as an expense in the profit and loss account in respect of operating leases *(2016: £517,000)*.

The operating lease relates to lease of land at Grangemouth docks at the ships jetties.

18 Capital Commitments

Outstanding capital expenditure authorised by the Board and for which contracts had been placed at 31 December 2017 by the Company amounted to approximately £4,337,000 *(2016: £1,579,000)*.

19 Related parties

During the year the Company entered into transactions, in the ordinary course of business, with the following related parties entities (split by Group).

Petroineos related parties

- Petroineos Manufacturing Scotland Limited
- Petroineos Trading Limited

The nature of the transactions with Petroineos related parties was the purchase of utilities and the sale of fixed and variable costs.

INEOS related parties

- INEOS Chemicals Grangemouth Limited
- INEOS Commercial Services UK Limited
- INEOS Europe AG
- INEOS Enterprises Group Limited
- INOVYN Chlorvinyls Limited

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

19 Related parties (continued)

The nature of the transactions with INEOS related parties was the purchase of natural gas and utilities and the sale of fixed and variable costs.

Transactions entered into and trading balances outstanding at 31 December with these related party groups are as follows:

Related party transactions

	Sales to related party		Purchases from related party	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Petroineos related parties	**99,672**	85,469	**62,956**	49,110
INEOS related parties	**90,741**	75,202	**66,360**	53,232
	190,413	160,671	**129,316**	102,342

	Receivables outstanding		Creditors outstanding	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Petroineos related parties	**7,385**	12,347	**20**	625
INEOS related parties	**12,832**	8,819	**6,869**	3,909
	20,217	21,166	**6,889**	4,534

Receivables from Petroineos related parties includes a short term loan receivable of £4,102,000 with Petroineos Trading Limited (*2016: £9,916,000*).

Compensation to key management personnel (including directors)

The Group defines key management as the directors of the Company. Details of Directors' remuneration are given in Note 5.

20 Ultimate parent company

The immediate parent undertakings of the Company are Petroineos Refining Limited and INEOS Investments (Jersey) Limited, companies incorporated in Jersey.

There is no ultimate parent company or controlling party since INEOS Infrastructure (Grangemouth) Limited is a joint venture between INEOS Investments (Jersey) Limited and Petroineos Refining Limited, by virtue of their respective 50% shareholding in the Company.

No other group financial statements include the results of the Company.

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

21 Accounting estimates and judgements

Taxation

All the Company's operation are in the UK. Management is required to estimate the tax payable and this involves estimating the actual current tax charge or credit together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. Management have performed an assessment as to the extent to which future taxable profits will allow the deferred asset to be recovered. The calculation of the Company's total tax charge necessarily involves a significant degree of estimation in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority, or, as appropriate, through a formal legal process.

The Company has, from time to time, contingent tax liabilities arising from trading and corporate transactions. After appropriate consideration, management makes provision for these liabilities based on the probable level of economic loss that may be incurred and which is reliably measurable.

Details of amounts recognised with regard to taxation are disclosed in Notes 8 and 14.

Post employment benefits

The Company operates a defined benefit post employment scheme. The plan is now closed to new entrants and frozen to future accrual. Under FRS 102, management is required to estimate the present value of the future defined benefit obligation of each defined benefit scheme. The costs and year end obligations under the defined benefit scheme is determined using actuarial valuations. The actuarial valuations involve making numerous assumptions, including:

- inflation rate projections; and
- discount rate for scheme liabilities.

Details of post employment benefits are set out in Note 15.

Provisions

Other provisions are recognised in the year when it becomes probable that there will be a future outflow of funds resulting from past operations or events that can be reasonably estimated. The timing of recognition requires the application of judgement to existing facts and circumstances, which can be subject to change.

Estimates of the amounts of provisions recognised are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes.

Notes to the financial statements for the year ended 31 December 2017
(forming part of the financial statements) *(continued)*

21 Accounting estimates and judgements *(continued)*

Impairment reviews

Management are required to test for impairment of goodwill and other intangible assets with indefinite lives, on an annual basis, and of tangible and intangible assets with finite lives if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

An impairment test requires an assessment as to whether the carrying value of assets can be supported by its recoverable amount. Management calculates the recoverable amount based on the net present value of the future cash flows derived from the relevant assets, using cash flow projections which have been discounted at an appropriate discount rate.

In calculating the net present value of the future cash flows, certain assumptions and estimates are required to be made in respect of highly uncertain matters, including management's expectations of:

- growth rates of various revenue streams;
- long term growth rates;
- future margins;
- the selection of an appropriately risk adjusted discount rate; and
- the determination of terminal values.

Changing the assumptions selected by management, in particular the discount rate used in the present value calculation, could significantly affect the Company's impairment evaluation and results.

For the purpose of impairment testing (when required), to assess whether any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in the planned use of buildings, plant or equipment, or closure of facilities, the presence or absence of competition, lower than expected asset utilisation from events such as unplanned outages, strikes and hurricanes, technical obsolescence or lower than anticipated sales of products with capitalised intellectual property rights could result in shortened useful lives or impairment. Changes in the discount rates used could also lead to impairments.

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See Note 10 for the carrying amount of the property, plant and equipment, and Note 1.7 for the useful economic lives for each class of assets.

Impairment of debtors

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience.