Petroineos Manufacturing Scotland Limited

Annual report and financial statements

Registered number SC 010612

31 December 2015

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Strategic report for the year ended 31 December 2015

The directors present their strategic report on Petroineos Manufacturing Scotland Limited for the year ended 31 December 2015.

Review of business and future developments

Petroineos Manufacturing Scotland Limited operates a refinery in Grangemouth, Scotland. The principal refining products are LPG's, chemical feedstocks, transport fuels, heating and fuel oils.

Safety performance was very good during 2015 with a record low number of total injuries and no serious accidents. There were three significant losses of containment during the year. These were reported to the Regulator and subsequent investigation actions completed as appropriate. During 2015 the Refinery received a fine following pleading guilty to a breach of HSE legislation for an incident that occurred during 2012.

During March / April the Refinery took a planned intervention to replace catalysts on a number of units, following the successful completion of that work the Refinery operated at very high availability and utilization for the remainder of the year. 2015 Refining margins were at their highest levels since the financial crisis of 2009 and the subsequent global recession, which coupled with the very high utilization the financial performance for 2015, was the best for a number of years.

Whilst 2015 delivered very strong results for the Refinery the longer term outlook remains challenging in the current economic climate, the directors believe the steps that have already been taken to reduce overheads have paved the way to restoring sustained profitability and improving cash flow in the long term. Client loyalty has been retained in difficult conditions, with continued expansion of the wholesale business; and there is every reason to believe that, as growth returns to the economy, the Company can build on the foundations established. The Company, in the meantime, continues its policy of continuous development, both in terms of its product range and its market reach with a significant volume of road transport fuels now exported to the Northern Ireland market via the Finnart Ocean Terminal.

Strategy

The Company's aim is to operate the Refinery safely with high availability whilst reducing operating costs from the historic levels. The Refinery has put in place an improvement plan based on the 2014 Solomon benchmarking report, issued in 2015. The longer term objective is to achieve sustained revenue growth at a rate consistent with the 5 year plan level. The business is continuing to assess development options to improve the refinery yield profile and reduce the fuel oil product yield. The strategic aim is to reposition the refinery to a first quartile European performance on cost of production of transport fuels over the next 5 -10 years.

Strategic report for the year ended 31 December 2015 (continued)

Key performance indicators (KPI's)

Under the terms of the tolling agreement with Petroineos Trading Limited the charges levied reflect both the operational performance of the Hydrocracker (HCU) and Fluid Catalytic Cracker (FCCU) and the effectiveness of performing Turnarounds on these units and as such management have identified these as a key performance indicator for measurement.

The performance versus targets for 2015 were as follows:

	Target	Actual
Availability % HCU	85.39	81.56
Availability % FCCU	95.95	98.41

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of Petroineos Refining Limited, which include those of the Company, are discussed in the Group's annual report which does not form part of this report.

By order of the board

Russell Mann
Director
12th July 2016

Directors' report for the year ended 31 December 2015

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

Principal activities

The Company is engaged in the toll refining of petroleum products.

Results and dividends

The profit on ordinary activities before taxation was £11,657,000 (2014: loss of £18,689,000). The directors do not propose the payment of a dividend (2014: £nil).

Future developments

Future developments are discussed in the Strategic Report.

Financial risk management

The Company is reliant on funding from Petroineos Trading Limited to meet the anticipated needs of the Company. Petroineos Trading Limited has facilities totalling $5.90 billion (2014: $3.32 billion) at the end of the year. The facilities are supported by a letter of comfort from PetroChina Company Limited and are uncommitted facilities due to a commercial arrangement between PetroChina and the banks.

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

Directors

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

Si Bingjun	
J Chwu	(appointed 31 July 2015)
A R Gardner	(resigned 21 September 2015)
Y Lianguo	
Y Luo	
R E Mann	
A Traynor	(resigned 21 January 2015)

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 and holding monthly town hall meetings hosted by the board.

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.

Directors' report for the year ended 31 December 2015 (continued)

Political Contributions

The Company made no political contributions or incurred any expenditure during the year.

Charitable Contributions

The Company made charitable contributions of £3,919.

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 (including GHG 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.

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Directors' report for the year ended 31 December 2015 (continued)

Disclosure of information to auditors

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

(i) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware.

(ii) each director has taken all the steps that he ought to have taken in his duty as director in order to make himself 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

PricewaterhouseCoopers' appointment as external auditor of the Company expired during 2015 following their conclusion of the audit of the Company's accounts for the year ended 31 December 2014. As a result, KPMG LLP have been appointed as the auditor of the Company in accordance with Section 485 of the Companies Act 2006.

By order of the board

Russell Mann
Director
12th July 2016

Registered number SC 010612

Independent Auditor's Report To The Members Of Petroineos Manufacturing Scotland Limited

We have audited the financial statements of Petroineos Manufacturing Scotland Limited for the year ended 31 December 2015 set out on pages 7 to 38. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

J. Lowes.

Juliette Lowes (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

London

12 July 2016

Profit and Loss Account

for year ended 31 December 2015

	Note	2015	2014
		£'000	£'000
Turnover	2	**288,715**	240,296
Cost of sales		**(262,861)**	(246,106)
Gross profit/(loss)		**25,854**	(5,810)
Distribution costs		**(4,342)**	(4,661)
Administrative expenses		**(1,586)**	(611)
Operating profit/(loss)	3	**19,926**	(11,082)
Interest payable and similar charges	6	**(8,269)**	(7,607)
Profit/(loss) on ordinary activities before taxation		**11,657**	(18,689)
Tax on profit/(loss) on ordinary activities	7	**(10,101)**	2,848
Profit/(loss) for the financial year		**1,556**	(15,841)

All activities of the company relate to continuing operations.

Statement of Comprehensive Income
for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Profit/(loss) for the financial year		**1,556**	(15,841)
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) recognised in the pension scheme	*16*	**8,979**	(9,050)
Deferred tax arising on actuarial (gains)/losses in the pension scheme	*7,15*	**(1,818)**	2,269
Other comprehensive income/(expense) for the year, net of income tax		**7,161**	(6,781)
Total comprehensive income/(expense) for the year		**8,717**	(22,622)

Balance Sheet
At 31 December 2015

	Note	**2015**	2014
		£'000	£'000
Fixed assets			
Intangible assets	*8*	**8,650**	9,834
Tangible assets	*9*	**479,849**	518,975
Total Fixed assets		**488,499**	528,809
Current assets			
Inventories	*10*	**17,806**	4,756
Debtors (including £15.6m (2014: £50.3m) due after more than one year)	*11*	**84,137**	85,918
Cash at bank and in hand	*12*	**834**	508
Total current assets		**102,777**	91,182
Creditors: amounts falling due within one year	*13*	**(274,578)**	(300,288)
Net current liabilities		**(171,801)**	(209,106)
Total assets less current liabilities		**316,698**	319,703
Provisions for liabilities			
Post employment benefits	*16*	**(18,325)**	(30,047)
Net assets		**298,373**	289,656
Capital and reserves			
Called up share capital	*17*	**35**	35
Share Premium account		**344,631**	344,631
Profit and loss account		**(46,293)**	(55,010)
Total equity		**298,373**	289,656

These financial statements on pages 7 to 38 were approved by the board of directors on 12th July 2016 and were signed on its behalf by:

Russell Mann
Director
Company registered number SC 010612

Statement of Changes in Equity

	Called up share capital	Share Premium account	Profit and loss account	Total equity
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 January 2014	35	344,631	(32,388)	312,278
Total comprehensive income for the year				
Loss for the financial year	-	-	(15,841)	(15,841)
Other comprehensive expense	-	-	(6,781)	(6,781)
Total comprehensive expense for the year	-	-	(22,622)	(22,622)
Balance at 31 December 2014	35	344,631	(55,010)	289,656

	Called up share capital	Share Premium account	Profit and loss account	Total equity
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 January 2015	35	344,631	(55,010)	289,656
Total comprehensive income for the year				
Profit for the financial year	-	-	1,556	1,556
Other comprehensive income	-	-	7,161	7,161
Total comprehensive income for the year	-	-	8,717	8,717
Balance at 31 December 2015	**35**	**344,631**	**(46,293)**	**298,373**

Notes (forming part of the financial statements)

1 Accounting policies

Petroineos Manufacturing Scotland Limited (the "Company") is a limited company incorporated and domiciled in the UK. The registered office address is Tricor Services Europe LLP, Tricor Suite, 4th Floor, 50 Mark Lane, London, United Kingdom, EC3R 7QR. The Company is exempt by s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These statements present information about the company as an individual undertaking and not about its group.

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

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

In these financial statements, the Company has adopted FRS 101 for the first time.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected financial position and financial performance of the company is provided in note 23.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemption has been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 January 2014 have not been restated.

The Company's parent undertaking, Petroineos Refining Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Petroineos Refining Limited are prepared in accordance with International Financial Reporting Standards as adopted by the EU and can be obtained from the Company Secretary, 5 Wilton Road, London, SW1V 1AN.

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

- A Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- An additional Balance Sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy. See note 23.
- The effects of new but not yet effective IFRSs and;
- Disclosures in respect of the compensation of Key Management Personnel.

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

- IFRS 2 *Share Based Payments* in respect of group settled share based payments;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Disclosures required by *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* in respect of the cash flows of discontinued operations;

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

1 Accounting policies *(continued)*

- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures.*

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet at 1 January 2014 for the purposes of the transition to FRS 101.

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 22.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The Company meets its day-to-day working capital requirements through its intra-group current account funding, which are covered by external bank facilities held by Petroineos Trading Limited and supported by letters of comfort from PetroChina Company Limited. 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 n 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 currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. 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.

1.4 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

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

Investments in debt and equity securities

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

Interest-bearing borrowings

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

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

1 Accounting policies *(continued)*

1.5 Derivative financial instruments

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.

1.6 Intra-group financial instruments

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

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Capital work in progress is held as assets under construction until fully commissioned and transferred into active use.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated 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, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

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. Assets under construction and freehold land are not depreciated. The estimated useful lives are as follows:

- Freehold Buildings 20 years
- Plant and equipment 4 - 30 years

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

1.8 Intangible assets

Intangible assets are stated at cost less any accumulated amortisation or impairment losses. Refer to emission trading scheme for further information on capitalised purchase emission credits.

1.9 Government grants

Capital related government grants are shown in the balance sheet as deferred income. This income is amortised on a straight line basis over the same period as the tangible fixed asset to which it relates or the life of the related project. Revenue grants are credited to the profit and loss account in the same period as the items to which they relate.

1.10 Stocks

Stocks are valued at cost to the Company, mainly using the weighted average method or net realisable value, whichever is lower. Provision is made where necessary for obsolete, slow moving and defective stocks.

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

1 Accounting policies *(continued)*

1.11 Impairment excluding stocks and 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. 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 stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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.

An impairment loss in respect of goodwill is reversed if and only if the reasons for the impairment have ceased to apply.

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

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

1 Accounting policies *(continued)*

1.12 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 the defined contribution pension plan is 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 the defined benefit pension 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 used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from the defined benefit plan comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

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.

1.13 Provisions

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

1.14 Leases

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the terms of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

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

1 Accounting policies *(continued)*

1.15 Turnover

Turnover, which is stated net of value added tax, represents the recovery costs from Petroineos Trading Limited or Petroineos Europe Limited under the terms of the tolling contract between the two companies. Under the tolling contract, Petroineos Trading Limited or Petroineos Europe Limited provides raw materials to be converted into specified products, for which the company charges a toll fee. These fees are charged on a monthly basis and are recognised on an accrual basis, as the service is delivered.

1.16 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. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on 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 includes 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. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

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

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

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

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

1 Accounting policies *(continued)*

1.18 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 consolidated income statement 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.

The Kyoto Protocol sets legally binding targets for cutting emissions and provides for three international "flexible mechanisms" to be used by developed countries in cost effectively meeting their greenhouse gas emissions targets, one of which is the Clean Development Mechanism ("CDM"). This permits industrialised countries to meet part of their commitments through projects in developing countries. The CDM programme provides incentives for the project participants in the form of Certified Emissions Reductions ("CERs"). It is the trading of these CERs that provides the market incentive to reduce emissions. CERs produced from these projects are recorded at nil cost. CERs purchased from third parties are recognised within intangible assets on the basis of purchased cost. The Company recognises the revenue from sale of CERs upon their sale to third parties.

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.

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

2 Turnover

Turnover represents the recovery costs from Petroineos Trading Limited under the terms of the tolling contract between the companies. Under the tolling contract, Petroineos Trading Limited provides raw materials to be converted into specified products, for which the Company charges a toll fee. All turnover relates to activities in the UK.

3 Operating profit/(loss)

Included in profit/(loss) are the following:

	2015	2014
	£'000	£'000
Foreign exchange loss	**207**	149
Depreciation of owned assets (note 9)	**62,657**	58,019
Depreciation of assets held under finance leases (note 9)	**6**	13
Impairment of tangible fixed assets (note 9)	**1,571**	(610)
Impairment of intangible assets (note 8)	**1,184**	(613)
Amortisation of government grants	**(416)**	(416)

Auditor's remuneration:

	2015	2014
	£'000	£'000
Audit of these financial statements	**52**	71
	52	71

The amounts relating to 2014 were to PWC and the amounts relating to 2015 are due to KPMG LLP.

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

4 Staff number and costs

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

	Number of employees	
	2015	2014
Operations	**307**	298
Maintenance	**100**	82
Other – support services	**40**	27
	447	407

The aggregate payroll costs of these persons were as follows:

	2015	2014
	£'000	£'000
Wages and salaries	**25,659**	26,630
Social security costs	**2,832**	3,058
Pension costs - defined contribution plan	**1,849**	2,141
Pension costs - defined benefit plan (note 16)	**656**	554
	30,996	32,383

5 Directors' remuneration

The aggregate emoluments of directors:

	2015	2014
	£'000	£'000
Directors' emoluments	**172**	170
	172	170

The aggregate of emoluments of the highest paid director was £172,000 (2014: £170,000).

No directors had benefits accruing under a defined benefit pension scheme (2014: none).

No other directors received any fees or remuneration for services as a director of the Company during the financial year.

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

6 Interest payable and similar charges

	2015	2014
	£'000	£'000
Interest expense on financial liabilities measured at amortised cost	7,233	6,589
Net interest on net defined benefit plan liability (note 16)	1,036	1,018
Total interest payable and similar charges	8,269	7,607

Interest payable and similar charges include interest payable to group undertakings of £7,226,655 (2014: £6,577,000).

7 Tax on profit/(loss) on ordinary on activities

Recognised in the profit and loss account

	2015	2014
	£'000	£'000
UK corporation tax		
Current tax on income for the year	-	-
Adjustments in respect of prior years	(259)	(1,906)
Total current tax	(259)	(1,906)
Deferred tax (see note 15)		
Origination and reversal of temporary differences	2,083	(3,279)
Adjustments in respect of prior years	4,541	2,337
Effective tax rate change on opening balance	3,736	-
Total deferred tax	10,360	(942)
Tax on profit/(loss) on ordinary activities	10,101	(2,848)

Income tax recognised in other comprehensive income

	2015	2014
	£'000	£'000
Remeasurements of defined benefit(liability)/asset	1,818	(2,269)
	1,818	(2,269)

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

7 Tax on Profit/loss on ordinary on activities *(continued)*

Reconciliation of effective tax rate

	2015	2014
	£'000	£'000
Total tax charge/(credit)	**10,101**	(2,848)
Profit/(loss) on ordinary activities before taxation	**11,657**	(18,689)
Profit/(loss) multiplied by the standard rate of tax in the UK of 20.25 % (2014: 21.5%)	**2,360**	(4,018)
Expenses not deductible for tax purposes	**210**	-
Movement in tax rates	**3,249**	739
Adjustments in respect of prior year – deferred tax	**4,541**	2,337
Adjustments in respect of prior year – current tax	**(259)**	(1,906)
Total tax charge/(credit)	**10,101**	(2,848)

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Further reductions in the corporation tax rate, to 19% from 1 April 2017 and 18% from 1 April 2020, were substantially enacted for accounting purposes on 26 October 2015. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 20.25% and deferred taxation has been calculated at a rate of 18%.

A further change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. This comprised a reduction in the main rate of corporation tax for the financial year beginning 1 April 2020 from 19% to 17%, which is an additional 1% cut on top of the previously announced main rate corporation tax reduction to 18% from 1 April 2020. This reduction to a main rate of 17% had not been substantively enacted at the balance sheet date and so has not been reflected in these accounts.

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

8 Intangible assets

	Environmental Certificates £'000
Cost	
Balance at 1 January 2014	-
Additions	10,447
At 31 December 2014	10,447
Balance at 1 January 2015	10,447
Additions	-
At 31 December 2015	10,447
Accumulated amortisation and impairment	
Balance at 1 January 2014	-
Impairment Charge	(613)
Balance at 31 December 2014	(613)
Balance at 1 January 2015	(613)
Impairment Charge	(1,184)
Balance at 31 December 2015	(1,797)
Net book value	
At 31 December 2014	9,834
At 31 December 2015	**8,650**

There were no additions in the year relating to carbon allowances.

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

9 Tangible fixed assets

Cost	Land & Buildings £'000	Plant and Machinery £'000	Under Construction £'000	Total £'000
Balance at 1 January 2014	-	707,709	96,484	804,193
Additions	-	-	85,760	85,760
Disposals	-	(40,066)	-	(40,066)
Reclassification	-	3,364	-	3,364
Transfers	164	111,142	(111,306)	-
Balance at 31 December 2014	164	782,149	70,938	853,251
Balance at 1 January 2015	164	781,539	70,938	852,641
Additions	-	-	25,108	25,108
Disposals	-	(20,746)	-	(20,746)
Transfers	-	42,922	(42,922)	-
Balance at 31 December 2015	**164**	**803,715**	**53,124**	**857,003**
Accumulated depreciation and impairment				
Balance at 1 January 2014	-	(313,605)	-	(313,605)
Disposals	-	40,066	-	40,066
Reclassification	-	(2,095)	-	(2,095)
Depreciation charge for the financial year	-	(58,032)	-	(58,032)
Impairment		(610)		(610)
Balance at 31 December 2014	-	(334,276)	-	(334,276)
Balance at 1 January 2015	-	(333,666)	-	(333,666)
Disposals	-	20,746	-	20,746
Depreciation charge for the financial year	-	(62,663)	-	(62,663)
Impairment		(1,571)		(1,571)
Balance at 31 December 2015	-	**(377,154)**	-	**(377,154)**
Net book value				
At 31 December 2014	164	447,873	70,938	518,975
At 31 December 2015	**164**	**426,561**	**53,124**	**479,849**

The net book value of freehold land and buildings is £164,000.

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

10 Inventories

	2015	2014
	£'000	£'000
Process chemicals	**13,129**	718
Plant spares	**4,677**	4,038
	17,806	4,756

Inventories are stated after provisions for impairment of £3,175,198 (2014:£2,685,000).

The cost of inventories recognised as an expense and included in cost of sales amounted to £4,211,713 (2014: £1,121,580).

The difference between the carrying value of inventories and their replacement cost is not material.

11 Debtors

	2015	2014
	£'000	£'000
Trade debtors	**71**	667
Amounts owed by related parties	**32,951**	31,047
Amounts owed by group undertakings	**2,075**	2,061
Other debtors	**1,513**	284
Deferred tax (note 15)	**29,720**	41,898
Prepayments and accrued income	**17,807**	9,961
	84,137	85,918
Due within one year	**68,513**	35,641
Due after more than one year	**15,624**	50,277

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

12 Cash and cash equivalents/bank overdrafts

	2015	2014
	£'000	£'000
Cash at bank and in hand	834	508
	834	508

13 Creditors: amounts falling due within one year

	2015	2014
	£'000	£'000
Obligations under finance lease	-	33
Trade creditors	15,544	20,795
Amounts owed to group undertakings	227,381	254,504
Amounts owed to related parties	3,073	4,242
Other creditors	16,953	9,703
Accruals and deferred income	11,627	11,011
	274,578	300,288

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

14 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2015	2014
	£'000	£'000
Creditors falling due within less than one year		
Intercompany loan	**227,219**	254,394
	227,219	254,394

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2015 £'000	Carrying amount 2015 £'000	Face value 2014 £'000	Carrying amount 2014 £'000
Intercompany loan	**£**	**2.5% + Libor**	**2016**	**227,219**	**227,219**	254,394	254,394
				227,219	**227,219**	254,394	254,394

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

15 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	Net
	2015	**2015**	**2015**
	£'000	**£'000**	**£'000**
Tangible fixed assets	19,583	-	**19,583**
Tax value of loss carry-forwards	6,792	-	**6,792**
Employee benefits	3,345	-	**3,345**
Net tax assets	**29,720**	-	**29,720**

	Assets	Liabilities	Net
	2014	**2014**	**2014**
	£'000	**£'000**	**£'000**
Tangible fixed assets	27,611	-	27,611
Tax value of loss carry-forwards	8,278	-	8,278
Employee benefits	6,009	-	6,009
Net tax assets	41,898	-	41,898

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

15 Deferred tax assets and liabilities *(continued)*

Movement in deferred tax during the year

	1 January 2015	Recognised in income	Recognised in equity	31 December 2015
	£'000	£'000	£'000	£'000
Tangible fixed assets	27,611	(8,028)	-	19,583
Tax value of loss carry-forwards	8,278	(1,486)	-	6,792
Employee benefits	6,009	(846)	(1,818)	3,345
	41,898	**(10,360)**	**(1,818)**	**29,720**

Movement in deferred tax during the prior year

	1 January 2014	Recognised in income	Recognised in equity	31 December 2014
	£'000	£'000	£'000	£'000
Tangible fixed assets	26,728	883	-	27,611
Tax value of loss carry-forwards	7,028	1,250	-	8,278
Employee benefits	4,931	(1,191)	2,269	6,009
	38,687	942	2,269	41,898

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 allowances and short term timing differences. Where there is uncertainty of the reversal of such differences these amounts shall remain unrecognised.

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

16 Post employment benefits

The Company operates a defined benefit pension plan, which is a final salary scheme. The scheme covers employees of Petroineos Europe Limited, Petroineos Trading Limited and Petroineos Manufacturing Scotland Limited. The scheme is managed by Trustees, who are directors of Innovene Trustee Limited which has a trust deed in favour of Petroineos Europe Limited. The contributions paid to the plan are set every three years based on a funding agreement between the Company and Trustees after taking actuarial advice. The full scheme assets and liabilities have been included in the financial statements of Petroineos Manufacturing Scotland Limited as we are unable to split the assets and liabilities of the scheme between the respective companies. The scheme is now closed to new entrants and frozen to future service accrual.

In accordance with new UK GAAP, pension charges in relation to the Pension Fund have been accounted for under IAS 19 "Revised Employee Benefits" 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 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.

	2015	2014
	£'000	£'000
Total defined benefit asset	**173,787**	170,905
Total defined benefit liability	**(192,112)**	(200,952)
Net liability for defined benefit obligations (see following table)	**(18,325)**	(30,047)
Total post employment benefits	**(18,325)**	(30,047)

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

16 Post employment benefits *(continued)*

Movements in net defined benefit liability

	Defined benefit obligation		**Fair value of plan assets**		**Net defined benefit liability/(asset)**	
	2015	2014	**2015**	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Balance at 1 January	**200,952**	173,152	**(170,905)**	(148,495)	**30,047**	24,657
Included in profit or loss						
Current service cost	**656**	554	-	-	**656**	554
Past service cost	-	-	-	-		-
Interest cost/(income)	**7,327**	7,760	**(6,291)**	(6,742)	**1,036**	1,018
	7,983	8,314	**(6,291)**	(6,742)	**1,692**	1,572
Included in Comprehensive Income						
Remeasurement loss/(gain) Actuarial loss/(gain) arising from:						
- Changes in demographic assumptions	**774**	-	-	-	**774**	-
- Changes in financial assumptions	**(4,852)**	23,740	-	-	**(4,852)**	23,740
- Experience adjustment	**(7,187)**	1,987	-	-	**(7,187)**	1,987
Return on plan assets excluding interest income	-	-	**2,286**	(16,677)	**2,286**	(16,677)
	(11,265)	25,727	**2,286**	(16,677)	**(8,979)**	9,050
Other						
Contributions paid by the employer	-	-	**(4,435)**	(5,232)	**(4,435)**	(5,232)
Member contribution	-	42	-	(42)	-	-
Benefits paid	**(5,558)**	(6,283)	**5,558**	6,283	-	-
Balance at 31 December	**192,112**	200,952	**(173,787)**	(170,905)	**18,325**	30,047

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

16 Post employment benefits *(continued)*

	2015	2014
	£'000	£'000
Plan assets		
Equities (fund manager portfolio)	89,212	85,366
Bonds - Corporate	45,953	47,683
Real estate	23,678	22,435
Other assets	14,944	15,421
	173,787	170,905

All equity securities and corporate bonds have quoted prices in active markets. All other plan assets are not quoted in active markets.

	2015	2014
Actuarial assumptions (expressed as weighted average)		
Discount rate at 31 December	3.7%	3.7%
Rate of salary increases	0.0%	0.0%
Rate of price inflation	3.1%	3.1%
Rate of pension increases (in-payment)	2.9%	2.9%
Rate of increase in deferred benefits	3.1%	3.1%

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:

- Current pensioner aged 65: 22.65 years (male), 23.28 years (female).
- Future retiree upon reaching 65: 23.93 years (male), 24.15 years (female).

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

16 Post employment benefits *(continued)*

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting year would have increased/(decreased) as a result of a change in the respective assumptions by 1%.

	2015	2014
	£'000	£'000
Discount rate	**244,938**	251,192
Inflation (RPI, CPI)	**209,533**	218,428

In valuing the liabilities of the pension fund at £192,112,000 (2014: £200,952,000), mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities would be £196,833,000 (2014: £204,908,000) having increased by £4,721,000 (2014: £3,956,000) before deferred tax.

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at December 2011 and are applied to adjust the defined benefit obligation at the end of the reporting year for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Funding

The company expects to contribute £4,187,000 to its closed defined benefit scheme in 2016 under a deficit reduction program.

Defined contribution plans

The Company operates a defined contribution pension plan.

The total expense relating to these plans in the current year was £1,849,203 (2014: £2,141,000).

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

17 Called up share capital

		No. of Shares
Ordinary shares of £0.001		35,000,004
	2015	2014
	£'000	£'000
Allotted, called up and fully paid		
At 1 January	**35**	35
Issued during the year	**-**	-
At 31 December	**35**	35

18 Operating leases

Lessee non-cancellable operating lease rentals

Non-cancellable operating lease rentals are payable as follows:

	2015	2014
	£'000	£'000
Less than one year	**9,179**	9,975
Between one and five years	**4,922**	4,588
More than five years	**6,850**	5,013
	20,951	19,576

During the year £8,863,000 was recognised as an expense in the profit and loss account in respect of operating leases (2014: £3,844,000).

The Company has a secondary lease on the Merox treatment unit which is used on site to clean contaminants within the production stream. This lease has now been bought out and expires in 2016. There is a lease for two floating storage units that are being utilised to increase the storage capacity at Grangemouth and a rental lease for the use of jetties at Forth Ports.

Lessor non-cancellable operating lease rentals

Petroineos Refining Limited owns the refining site at Grangemouth, Scotland. A toll processing agreement exists with Petroineos Trading Limited. The agreement specifies that the Grangemouth site will provide toll processing services to Petroineos Trading directly. The agreement specifies that the production schedule at Grangemouth will be based on orders from Petroineos Trading, and that the sites will de facto be dedicated to the agreements.

In consideration for the Petroineos Refining Limited obligations under the tolling agreement, Petroineos Trading Limited pays a processing fee. This processing fee is calculated based on the fixed, variable and depreciation actual costs incurred by the site referable to the agreement, plus a fixed processing margin which is reviewed periodically. The base cost plus tolling fee is adjusted to reflect variances in the margin environment and the operational efficiency of the refinery. The pricing structures are not fixed per unit of output. The agreement came into force on 1 June 2011 and shall continue in full force until 31 December 2017, at which point it shall automatically continue however it may be terminated by either party, giving twelve months notice.

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

19 Capital commitments

At 31 December 2015, amounts contracted for but not provided for in the financial statements for the acquisition of property, plant and equipment is £13,838,851 (2014: £7,562,122).

20 Related parties

Other 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 subsidiaries under common ownership. Transactions entered into, and trading balances outstanding at 31 December with other related parties, are as follows:

Other related party transactions

	Sales		Cost recoveries		Expenses incurred	
	2015	2014	**2015**	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Ineos Group Holdings S.A.Group	-	-	**1,298**	-	**63,350**	1,955
Petroineos Trading Ltd Group	**288,150**	241,052	**472**	-	**23**	8,060
Other related parties	-	-	**45,448**	60,679	**55,102**	95,556
	288,150	241,052	**47,218**	60,679	**118,475**	105,571

	Receivables outstanding		Creditors outstanding	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Ineos Group Holdings S.A.Group	**151**	61	**8**	30
Petroineos Trading Ltd Group	**30,489**	29,788	**1,558**	3,605
Other related parties	**2,311**	1,198	**1,507**	607
	32,951	31,047	**3,073**	4,242

21 Controlling parties

Petroineos Refining Limited is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements. There is no ultimate parent company or ultimate controlling party since Petroineos Refining Limited is a joint venture between INEOS Investments (Jersey) Limited and PetroChina International (London) Company Limited.

Copies of the financial statements of Petroineos Refining Limited can be obtained from the Company Secretary:

The Secretary
Petroineos Refining Limited
5 Wilton Road
London
SW1V 1AN

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

22 Accounting estimates and judgements

Taxation

Management is required to estimate the tax payable in the jurisdiction in which the Company operates. 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, which may be included on the balance sheet of the Company. Management has 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.

Details of amounts recognised with regard to taxation are disclosed in note 7.

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 IAS 19 Revised Employee Benefits, 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 16.

Impairment reviews

IFRSs require management 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;
- future refining margins;
- the selection of an appropriately risk adjusted discount rate; and
- the determination of terminal values.

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

22 Accounting estimates and judgements *(continued)*

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 9 for the carrying amount of the property, plant and equipment, and note 1 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 the 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.

23 Explanation of transition to FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening FRS 101 balance sheet at 1 January 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

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

23 Explanation of transition to FRS 101 *(continued)*

Reconciliation of equity		1 January 2014			**31 December 2014**		
		UK GAAP	Effect of transition to FRS	FRS 101	**UK GAAP**	**Effect of transition to FRS**	**FRS 101**
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Fixed assets							
Intangible assets		-	-	-	9,834	-	9,834
Tangible assets	*2*	490,588	-	490,588	517,706	1,269	518,975
		490,588	-	490,588	527,540	1,269	528,809
Current assets							
Inventories	*2*	1,228	-	1,228	6,025	(1,269)	4,756
Debtors	*1*	57,333	4,931	62,264	79,909	6,009	85,918
Cash at bank and in hand		887	-	887	508	-	508
		59,448	4,931	64,379	86,442	4,740	91,182
Creditors: amounts							
falling due with one year		(217,999)	-	(217,999)	(300,288)	-	(300,288)
Net current assets/(liabilities)		(158,551)	4,931	(153,620)	(213,846)	4,740	(209,106)
Creditors: amounts							
falling due after one year		(33)	-	(33)	-	-	-
Provisions for liabilities							
Post employment benefits	*1*	(19,726)	(4,931)	(24,657)	(24,038)	(6,009)	(30,047)
Net assets		312,278	-	312,278	289,656	-	289,656
Capital and reserves							
Called up share capital		35	-	35	35	-	35
Share premium account		344,631	-	344,631	344,631	-	344,631
Profit and loss account		(32,388)	-	(32,388)	(55,010)	-	(55,010)
Total equity		(312,278)	-	312,278	289,656	-	289,656

Notes to the reconciliation of equity

1. Under UK GAAP the deferred tax asset on employee benefits was netted off against the employee benefits liability. Under FRS101, the deferred tax asset is reported under debtors.

2. Under UK GAAP insurance spares were treated as inventories. Under FRS101, insurance spares are treated as tangible assets.

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

23 Explanation of transition to FRS 101 *(continued)*

Reconciliation of loss for year end December 2014

	Note	UK GAAP	Effect of transition to FRS	FRS 101
	Note	£'000	£'000	£'000
Turnover		240,296	-	240,296
Cost of sales	*1*	(245,552)	(554)	(246,106)
Gross loss		(5,256)	(554)	(5,810)
Distribution costs		(4,661)	-	(4,661)
Administrative expenses		(611)	-	(611)
Operating loss		(10,528)	(554)	(11,082)
Other interest receivable and similar income	*1*	721	(721)	-
Interest payable and similar charges	*1*	(6,589)	(1,018)	(7,607)
Loss on ordinary activities before taxation		(16,396)	(2,293)	(18,689)
Tax on loss on ordinary activities		2,848	-	2,848
Loss for the financial year		(13,548)	(2,293)	(15,841)
Total comprehensive expense for the year				
Loss for the financial year		(13,548)	(2,293)	(15,841)
Other comprehensive expense	*2*	(9,074)	2,293	(6,781)
Total comprehensive expense for the year	*2*	(22,622)	-	(22,622)

Notes to the reconciliation of loss

1. Upon transition to FRS101, the defined benefit obligation is accounted for under IAS19 rather than FRS17. The Service Cost under IAS19 (when compared to FRS17) now includes the administration expense. The Income on Asset item under IAS19 (when compared to the Expected Return on Asset item under FRS17) excludes the administration cost and applies the discount rate assumption rather than the Expected Return on Asset assumption under FRS17. The above differences are then recognised in the experience gains and losses.

2. The differences described in 1 above also impact the split of the taxation recognised between profit and loss and other comprehensive income.