Petroineos Manufacturing Scotland Limited

Annual report and financial statements

Registered number SC 010612

31 December 2018

Contents

Strategic report for the year ended 31 December 2018

The directors present their strategic report on Petroineos Manufacturing Scotland Limited for the year ended 31 December 2018.

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 during 2018 was very good with the lowest total injury number on record; there were no serious incidents during the period. Environmental performance was also very good with record low figures for air quality issues and flaring events. During 2018, the Refinery received no Improvement Notices from the HSE, and at the end of 2018 had no outstanding historic notices.

The Refinery operated well throughout the year with high availability ahead of the operating plan. There were two major turnarounds, on the HFU and CDU3, which were completed ahead of the plan during Quarter 2, 2018. Despite good plant availability, refining margins during 2018 were lower than expected and the company did not meet its commercial performance metric for the year.

The longer-term outlook for European Refining 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 (2018 was a record year for sales volume), and there is every reason to believe that, as growth continues 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 Refinery delivered the majority of the 2018 targets associated with these plans. 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, energy performance 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 2018 (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 2018 were as follows:

	Target	Actual
Availability % HCU	89.75	86.53
Availability % FCCU	95.88	99.24

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
10 October 2019

Directors' report for the year ended 31 December 2018

The directors present their report and audited financial statements of the Company for the year ended 31 December 2018.

Principal activities

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

Results and dividends

The loss before taxation was £2,165,000 (2017: profit of £25,291,000). The directors do not propose the payment of a dividend (2017: £nil).

Future developments

Future developments are discussed in the Strategic Report.

Financial risk management

The Company and its parent company, Petroineos Refining Limited are reliant on funding from Petroinoes Trading Limited to meet the anticipated needs of the company. As at 31 December 2018, the Petroineos Trading Group had available bank credit facilities of $5,645 million of which $444 million were utilised in the form of loans and $727 million utilised in the form of letters of credit.

The parent company, Petroineos Refining Limited, has indicated that it will continue to financially support the Company and assist it in meeting the Company's liabilities as and when they fall due to the extent that funding is not otherwise available to the Company.

Going concern

The Company meets its day-to-day working capital requirements through its inter-company current account facility. 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, notwithstanding the Net Current Liabilities of £199 million, 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.

The parent company, Petroineos Refining Limited, has indicated that it will continue to financially support the Company and assist it in meeting the Company's liabilities as and when they fall due to the extent that funding is not otherwise available to the Company, for a period of 12 months from the date of approval of these financial statements.

Directors

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

F Demay	Appointed 24 April 2019
H Zhang	Appointed 5 October 2018
G Wang	
G Hepburn	
Y Luo	
R E Mann	
X Zhang	Resigned 5 October 2018

Directors' report for the year ended 31 December 2018 (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 and holding employee information 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.

Political Contributions

The Company made no political contributions or incurred any political expenditure during the year (2017: nil).

Charitable Contributions

The Company made charitable contributions of £2,750 (2017: £4,000).

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.

Disclosure of information to auditor

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 auditor is unaware.

(ii) each director has taken all the steps that they ought to have taken in their duty as director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is 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 auditor

The auditors, KPMG LLP, have indicated their willingness to continue in office. The auditors are deemed to be reappointed under section 487 (2) of the Companies Act 2006.

By order of the board

Russell Mann
Director
10 October 2019
Registered number SC 010612

Statement of directors' responsibilities for the year ended 31 December 2018

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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Opinion

We have audited the financial statements of Petroineos Manufacturing Scotland Limited ("the Company") for the year ended 31 December 2018 which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes In Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK existing the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

The purpose of our audit work and to whom we owe our responsibilities

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

Juliette Lowes

Juliette Lowes (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP

15 Canada Square

London, E14 5GL

10 October 2019

Profit and Loss Account
for the year ended 31 December 2018

	Note	2018	2017
		£'000	£'000
Turnover	2	**281,103**	286,672
Cost of sales		**(271,232)**	(248,933)
Gross profit		**9,871**	37,739
Distribution costs		**(4,380)**	(4,596)
Administrative expenses		**-**	(16)
Operating profit	3	**5,491**	33,127
Interest payable and similar charges	6	**(7,656)**	(7,836)
(Loss)/profit before taxation		**(2,165)**	25,291
(Tax)/Tax credit on (loss)/profit	7	**(1,943)**	2,594
(Loss)/profit for the financial year		**(4,108)**	27,885

All activities of the company relate to continuing operations.

Statement of Comprehensive Income
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
(Loss)/profit for the financial year		(4,108)	27,885
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Actuarial gain recognised in the pension scheme	*18*	22,294	37,252
Deferred tax arising on actuarial gains in the pension scheme	*7,17*	(3,790)	(7,170)
Other comprehensive income for the year, net of income tax		18,504	30,082
Total comprehensive income for the year		14,396	57,967

Balance Sheet
At 31 December 2018

	Note	2018	2017
		£'000	£'000
Fixed assets			
Intangible assets	8	2,335	4,621
Tangible assets	9	528,497	506,292
Total Fixed assets		530,832	510,913
Current assets			
Post employment benefits due after more than one year	18	2,843	-
Inventories	10	15,231	15,530
Debtors (including £7.9 million (2017: £7.1 million) due after more than one year)	11	93,860	99,277
Cash at bank and in hand	12	284	668
Total current assets		112,218	115,475
Creditors: amounts falling due within one year	13	(311,236)	(288,079)
Net current liabilities		(199,018)	(172,604)
Total assets less current liabilities		331,814	338,309
Creditors: amounts falling due after more than one year	14	(664)	-
Provisions for liabilities			
Post employment benefits	18	-	(21,555)
Net assets		331,150	316,754
Capital and reserves			
Called up share capital	19	35	35
Share premium account		344,631	344,631
Profit and loss account		(13,516)	(27,912)
Total equity		331,150	316,754

These financial statements on pages 9 to 39 were approved by the board of directors on 10 October 2019 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 2017	35	344,631	(85,879)	258,787
Total comprehensive income for the year				
Profit for the financial year	-	-	27,885	27,885
Other comprehensive income	-	-	30,082	30,082
Total comprehensive income for the year	-	-	57,967	57,967
Balance at 31 December 2017	35	344,631	(27,912)	316,754

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 January 2018	35	344,631	(27,912)	316,754
Total comprehensive (expense)/income for the year				
Loss for the financial year	-	-	(4,108)	(4,108)
Other comprehensive income	-	-	18,504	18,504
Total comprehensive income for the year	-	-	14,396	14,396
Balance at 31 December 2018	**35**	**344,631**	**(13,516)**	**331,150**

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 Bo'ness Road, Grangemouth, Stirlingshire, FK3 9XH. 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.

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, The Adelphi, 1-11 John Adam Street, London, WC2N 6HT.

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;
- 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:

- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- 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.

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

1 Accounting policies *(continued)*

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

Notwithstanding net current liabilities of £199 million as at 31 December 2018 and a loss for the year then ended of £4 million, the financial statements have been prepared on going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its immediate parent company, Petroineos Refining Limited, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Petroineos Refining Limited not seeking repayment of the amounts currently due to the group, which at 31 December 2018 amounted to £238.4 million, and providing additional financial support during that period. Petroineos Refining Limited has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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 machinery 4 - 30 years

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

1.8 Intangible assets

Intangible assets, other than Certified Emissions Reductions (CERs), are stated at cost less any accumulated amortisation or impairment losses. Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets. The intangible assets are amortised from the date they are available for use. The estimated useful lives are between one to four years.

Certified Emissions Reductions are held at purchased cost and utilised against carbon emissions. (See emissions trading scheme policy, note 1.18.)

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). A surplus is recognised to the extent that the company is able to recover the surplus through reduced contributions or refunds.

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 under the terms of the tolling contract between the two 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. 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.

1.19 Changes in accounting policy

Impact of new International Financial Reporting Standards

The Company has adopted two new accounting standards issued by the International Accounting Standards Board with effect from 1 January 2018, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. There are no other new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued in July 2014 and replaces IAS 39 'Financial Instruments: Recognition and Measurement.' The Company has adopted IFRS 9 with a date of application of 1 January 2018. The Company has applied the new standard in accordance with the transitional provisions of IFRS 9. However, the impact of the implementation of the new standard is not material to the Company as analysed below.

IFRS 9 requires recognition of expected credit losses for debt financial assets. The Company has performed an assessment of the current IAS 39 incurred loss methodology for impairment against the IFRS 9 Expected Credit Loss ('ECL') methodology to understand the impact on impairment of trade debtor and intercompany and related party loans receivable.

Trade debtors and other receivables not subject to factoring, represent unsettled invoices arising from activities of the Company. Previously in accordance with IAS 39, these were classified as Loans and Receivables at amortised cost. The Company does not believe that a further expected credit loss is required due to the high quality of the Company's trade debtors and its low history of bad debts. The application of IFRS 9 has not resulted in a material change to the allowance for impairment in respect of trade debtors.

Amounts due to group undertakings and related parties represent interest-bearing working capital loans advanced to other group and related party entities. Previously under IAS 39, these were classified as loans receivable at amortised cost. The Company considers that, due to the low credit risk of the amounts owed to group undertakings, no expected credit loss is required to be recognised.

Based on the analysis performed, due to the low credit risk and short-term nature of the trade and intergroup receivables/related loan portfolio, the Company does not believe that an ECL is required to be recognised to fairly reflect trade debtors and intergroup/related party loans receivable in accordance with the requirements of IFRS 9 as at the 1 January 2018 transition date.

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

1 Accounting policies *(continued)*

1.13 Changes in accounting policy (continued)

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014 and replaces IAS 18 'Revenue' and certain other standards and interpretations. IFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations The Company adopted IFRS 15 from 1 January 2018 and applied the 'modified retrospective' transition approach to implementation.

The principal activities of the Company are the provision of refining services to a related party, Petroineos Trading Limited, under a toll processing agreement. 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 return, Petroineos Trading pays a toll 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 is currently assessed as including a non-cancellable operating lease agreement under IAS 17 'Leases'. Further information on this arrangement is considered in note 20.

The Company concluded that there is no material impact on the timing and amount of revenue recognised.

1.14 Adopted IFRS not yet applied

The following pronouncements that have been issued by IASB will become effective in future financial periods and have not been applied by the Group in these financial statements:

IFRS 16 Leases – IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. IFRS 16 requires lessees to recognise most leases on their balance sheets. Lessees will have a single accounting model for all leases with two exemptions (low value assets and short term leases). The Company will adopt the new standard on the effective date.

The financial impact of adopting the new standard is expected to have a material effect on the Company's financial statements. The Company is a lessee of land, motor vehicles and plant and equipment that are currently accounted for as operating leases. Based on a high-level impact assessment of these extant leases as at 1 January 2019, the directors believe that the effect on the financial statements during 2019 will be:

	£m
Recognition of right of use asset at 1 January 2019	**19.5**
Recognition of lease liability at 1 January 2019	**(18.9)**
Reclassification from prepayments and accruals	**(0.6)**
Effect on net assets at 1 January 2019	**-**
Credit to operating costs from the removal of operating lease expenses under IAS 17	**(6.5)**
Depreciation charge for right of use assets under IFRS16	**6.4**
Interest expense from lease liability under IFRS16	**0.4**
Net charge on profit for the year ended 31 December 2019	**0.3**

The Company does not expect the adoption of IFRS16 to have any impact on the financial statements as a lessor of assets.

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

Included in profit are the following:

	2018	2017
	£'000	£'000
Foreign exchange loss	**88**	214
Depreciation of owned assets (note 9)	**53,005**	52,195
Impairment of tangible fixed assets (note 9)	**613**	182
Amortisation of intangible assets (note 8)	**2,552**	2,295
Amortisation of government grants	**(416)**	(416)

Auditor's remuneration:

	2018	2017
	£'000	£'000
Audit of these financial statements	**65**	55

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

4 Staff number and costs

The average number of persons employed by the Company (including one director who is on the company payroll) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
Operations	**360**	334
Maintenance	**163**	139
Other – support services	**67**	61
	590	534

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£'000	£'000
Wages and salaries	**33,669**	36,322
Social security costs	**3,883**	3,777
Pension costs - defined contribution plan	**2,391**	2,211
Pension costs - defined benefit plan (note 18)	**478**	460
	40,421	42,770

5 Directors' remuneration

The aggregate emoluments of directors:

	2018	2017
	£'000	£'000
Directors' emoluments	**181**	171
	181	171

The aggregate of emoluments of the highest paid director was £181,000 (2017: £171,114).

No directors had benefits accruing under a defined benefit pension scheme (2017: 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

	2018	2017
	£'000	£'000
Interest expense on financial liabilities measured at amortised cost	**7,033**	6,296
Net interest on net defined benefit plan liability (note 18)	**527**	1,540
Finance lease liabilities	**96**	-
Total interest payable and similar charges	**7,656**	7,836

Interest payable and similar charges include interest payable to group undertakings of £7,032,457 (2017: £6,296,123).

7 Tax on profit

Recognised in the profit and loss account

	2018	2017
	£'000	£'000
UK corporation tax		
Group relief receivable	**-**	(5,223)
Adjustment in respect of previous years	**799**	-
Total current tax charge/(credit)	**799**	(5,223)
Deferred tax (see note 17)		
Origination and reversal of temporary differences	**551**	6,523
Adjustments in respect of prior years	**52**	(3,894)
Effective tax rate change on opening balance	**541**	-
Total deferred tax	**1,144**	2,629
Tax charge/(credit) on profit	**1,943**	(2,594)

Income tax recognised in other comprehensive income

	2018	2017
	£'000	£'000
Deferred tax arising on actuarial gains in the pension scheme	**3,790**	7,170
	3,790	7,170

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

7 Tax on profit *(continued)*

Reconciliation of effective tax rate

	2018	2017
	£'000	£'000
Total tax charge/(credit)	**1,943**	(2,594)
Loss/profit before taxation	**(2,165)**	25,291
Loss/profit multiplied by the standard rate of tax in the UK of 19% (2017: 19.25%)	**(411)**	4,868
Expenses not deductible for tax purposes	**173**	121
Expenditure within RDEC regime	**789**	-
Income not taxable for tax purposes	**-**	(1,879)
Movement in tax rates in respect of deferred tax	**541**	(1,810)
Adjustments to tax charge in respect of previous periods	**851**	(3,894)
Total tax charge/(credit)	**1,943**	**(2,594)**

The standard rate of corporation tax in the UK has not changed from 19% with effect from 1 April 2018.

A reduction in the corporation tax rate to 17% with effect from 1 April 2020 was substantively enacted for accounting purposes on 6 September 2016.

Deferred tax assets on the balance sheet as at 31 December 2018 were re-measured based on the above tax rates.

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

8 Intangible assets

	Environmental Certificates	Other Intangibles	Total
	£'000	£'000	£'000
Cost			
Balance at 1 January 2017/31 December 2017	10,447	-	10,447
Balance at 1 January 2018	10,447	-	10,447
Transfer from tangible fixed assets	-	266	266
At 31 December 2018	**10,447**	**266**	**10,713**
Accumulated amortisation and impairment			
Balance at 1 January 2017	(3,531)	-	(3,531)
Amortisation charge	(2,295)	-	(2,295)
Balance at 31 December 2017	(5,826)	-	(5,826)
Balance at 1 January 2018	(5,826)	-	(5,826)
Amortisation charge	(2,399)	(153)	(2,552)
Balance at 31 December 2018	**(8,225)**	**(153)**	**(8,378)**
Net book value			
At 31 December 2017	4,621	-	4,621
At 31 December 2018	**2,222**	**113**	**2,335**

There were no additions in the year relating to carbon allowances. The amortisation charge is in relation to the consumption of CERs certificates.
Other intangibles are in relation to MS Office 2010 upgrade and scheduling tool and associated licencing.

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 2017	164	695,743	92,777	788,684
Additions	-	-	73,787	73,787
Disposals	-	(32,607)	-	(32,607)
Transfers	-	69,795	(69,795)	-
Balance at 31 December 2017	164	732,931	96,769	829,864
Balance at 1 January 2018	164	732,931	96,769	829,864
Additions	-	898	75,038	75,936
Disposals	-	(20,133)	-	(20,133)
Transfers to intangibles	-	(266)	-	(266)
Transfers	-	50,944	(50,944)	-
Balance at 31 December 2018	164	764,374	120,863	885,401
Accumulated depreciation and impairment				
Balance at 1 January 2017	-	(303,783)	-	(303,783)
Disposals	-	32,588	-	32,588
Depreciation charge for the financial year	-	(52,195)	-	(52,195)
Impairment	-	(182)	-	(182)
Balance at 31 December 2017	-	**(323,572)**	-	**(323,572)**
Balance at 1 January 2018	-	(323,572)	-	(323,572)
Disposals	-	20,133	-	20,133
Depreciation charge for the financial year	-	(53,005)	-	(53,005)
Transfers to intangibles	-	153	-	153
Impairment	-	(613)	-	(613)
Balance at 31 December 2018	-	**(356,904)**	-	**(356,904)**
Net book value				
At 31 December 2017	164	409,359	96,769	506,292
At 31 December 2018	**164**	**407,470**	**120,863**	**528,497**

The net book value of freehold land and buildings is £164,000. The impairment charge is in relation to precious metals, being the fixed bed catalyst on the Cat Reformer (CRU) that contains Rhenium and Platinum, the volumes of these materials are marked to market based on the price at year end. Included above is plant and machinery assets held under finance leases with a net book value of £825,909 (2017: nil) Depreciation for the year on these assets was £71,818.

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

10 Inventories

	2018	2017
	£'000	£'000
Process chemicals	**2,469**	4,998
Plant spares	**12,762**	10,532
	15,231	15,530

There was no impairment in the current year (2017: nil).

The cost of inventories recognised as an expense and included in cost of sales amounted to £7,862,992 (2017: £7,442,768).

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

11 Debtors

	2018	2017
	£'000	£'000
Trade debtors	**1,790**	1,738
Amounts owed by related parties	**38,900**	40,627
Amounts owed by group undertakings	**7,359**	8,410
Other debtors	**691**	420
Deferred tax (note 17)	**19,571**	24,505
Prepayments and accrued income	**25,549**	23,577
	93,860	99,277
Due within one year	**85,963**	92,162
Due after more than one year	**7,897**	7,115

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

12 Cash at bank and in hand

	2018	2017
	£'000	£'000
Cash at bank and in hand	**284**	668
	284	668

13 Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
Trade creditors	**21,176**	15,495
Amounts owed to group undertakings	**239,059**	228,276
Amounts owed to related parties	**6,171**	2,242
Obligations under finance leases (note 15)	**110**	-
Other creditors	**22,873**	19,638
Accruals and deferred income	**21,847**	22,428
	311,236	288,079

14 Creditors: amounts falling due after more than one year

	2018	2017
	£'000	£'000
Obligations under finance leases (note 15)	**664**	-
	664	-

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

15 Obligations under finance leases:

The future minimum finance lease payments are as follows

	2018	2017
	£'000	£'000
Not later than one year	110	-
Later than one year and not later than five years	440	-
Later than five years	455	-
Total gross payments	**1,005**	-
Impact of finance expense	(231)	-
Carrying value of liability	**774**	-

The finance lease primarily relates to plan modifications installed and paid for by Suez. The plant modifications resulted in increased efficiencies in the cooling water recovery system. The finance lease obligation is the repayment of the Suez capital outlay.

16 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.

	2018	2017
	£'000	£'000
Creditors falling due within less than one year		
Intercompany loan	**238,426**	228,075
	238,426	228,075

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2018 £'000	Carrying amount 2018 £'000	Face value 2017 £'000	Carrying amount 2017 £'000
Intercompany loan	£	2.5% + Libor	2018	238,426	238,426	228,075	228,075
				238,426	238,426	228,075	228,075

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

17 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	Net
	2018	2018	2018
	£'000	£'000	£'000
Tangible fixed assets	4,493	-	4,493
Tax value of loss carry-forwards	15,562	-	15,562
Employee benefits	-	(484)	(484)
Net tax assets	**20,055**	**(484)**	**19,571**

	Assets	Liabilities	Net
	2017	2017	2017
	£'000	£'000	£'000
Tangible fixed assets	16,307	-	16,307
Tax value of loss carry-forwards	4,534	-	4,534
Employee benefits	3,664	-	3,664
Net tax assets	24,505	-	24,505

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

17 Deferred tax assets and liabilities *(continued)*

Movement in deferred tax during the year

	1 January 2018	Recognised in income	Recognised in equity	31 December 2018
	£'000	£'000	£'000	£'000
Tangible fixed assets	16,307	(11,814)	-	4,493
Tax value of loss carry-forwards	4,534	11,028	-	15,562
Employee benefits	3,664	(358)	(3,790)	(484)
	24,505	**(1,144)**	**(3,790)**	**19,571**

Movement in deferred tax during the prior year

	1 January 2017	Recognised in income	Recognised in equity	31 December 2017
	£'000	£'000	£'000	£'000
Tangible fixed assets	8,188	8,119	-	16,307
Tax value of loss carry-forwards	15,702	(11,168)	-	4,534
Employee benefits	10,414	420	(7,170)	3,664
	34,304	(2,629)	(7,170)	24,505

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)*

18 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.

	2018	2017
	£'000	£'000
Total defined benefit asset	**198,403**	222,646
Total defined benefit liability	**(195,560)**	(244,201)
Net asset/(liability) for defined benefit obligations (see following table)	**2,843**	(21,555)
Total post employment benefits	**2,843**	(21,555)

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

18 Post employment benefits *(continued)*

Movements in net defined benefit asset/(liability)

	Defined benefit obligation		Fair value of plan assets		Net defined benefit (asset)/liability	
	2018	2017	**2018**	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Balance at 1 January	**244,201**	272,463	**(222,646)**	(211,206)	**21,555**	61,257
Included in profit or loss						
Current service cost	**478**	460	**-**	-	**478**	460
Interest cost/(income)	**6,361**	7,030	**(5,834)**	(5,490)	**527**	1,540
	6,839	7,490	**(5,834)**	(5,490)	**1,005**	2,000
Included in Comprehensive Income						
Remeasurement gain						
Actuarial gain arising from:						
- Changes in demographic assumptions	**(1,117)**	(4,138)	**-**	-	**(1,117)**	(4,138)
- Changes in financial assumptions	**(13,759)**	(8,992)	**-**	-	**(13,759)**	(8,992)
- Experience adjustment	**(16,666)**	(5,543)	**-**	-	**(16,666)**	(5,543)
Return on plan assets excluding interest income	**-**	-	**9,248**	(18,579)	**9,248**	(18,579)
	(31,542)	(18,673)	**9,248**	(18,579)	**(22,294)**	(37,252)
Other						
Contributions paid by the employer	**-**	-	**(4,509)**	(4,450)	**(4,509)**	(4,450)
Benefits paid	**(25,338)**	(17,079)	**25,338**	17,079	**-**	-
Plan amendments	**1,400**	-	**-**	-	1,400	-
Balance at 31 December	**195,560**	244,201	**(198,403)**	(222,646)	**(2,843)**	21,555

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

18 Post employment benefits *(continued)*

	2018	2017
	£'000	£'000
Plan assets		
Equities (fund manager portfolio)	67,316	85,410
Bonds - Corporate	93,403	84,880
Real estate	25,872	24,972
Other assets	11,812	27,384
	198,403	222,646

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

	2018	2017
Actuarial assumptions (expressed as weighted average)		
Discount rate at 31 December	3.0%	2.7%
Rate of salary increases*	0.0%	0.0%
Rate of price inflation	3.2%	3.2%
Rate of pension increases (in-payment)	3.0%	3.0%
Rate of increase in deferred benefits	3.2%	3.2%

* The scheme is closed to future accrual and therefore benefits are no longer lined to future salary growth.

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: 21.72 years (male), 22.72 years (female).
- Future retiree upon reaching 65: 22.71 years (male), 23.44 years (female).

A landmark judgment was reached in the High Court on 26 October 2018 in the Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank Plc Guaranteed Minimum Pension (GMP –a pension benefit in lieu of part of the state pension for persons who were contracted out) equalisation case. A key implication of this case is the need for pension schemes to equalise benefits for the effect of unequal GMPs accrued between May1990 and April 1997.

The judgment applies to all UK pension schemes who were contracted out of the State Earnings Related Pension Scheme (SERPS) during this period and who provide GMPs, not just the schemes that were the subject of the case. Therefore the Plan (which was contracted out of SERPS) will need to equalise for the effect of unequal GMPs accrued between 1990 and 1997, resulting in an increase to the IAS 19 Defined Benefit Obligation (DBO).

The Group have estimated that GMP equalisation will lead to an increase in the IAS 19 Defined Benefit Obligation of £2.1m. This has been recorded within the profit and loss account.

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

18 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%.

	2018	2017
	£'000	£'000
Discount rate	**51,617**	75,143
Inflation (RPI, CPI)	**16,647**	24,412

In valuing the liabilities of the pension fund at £195,560,000 (2017: £244,201,000), mortality assumptions have been made as indicated above. 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 £201,543,000 (2017: £251,513,000) having increased by £5,983,000 (2017: £7,312,000) 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 2017 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 £4,482,000 to its closed defined benefit scheme in 2019 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 £2,390,911 (2017: £2,210,608).

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

19 Called up share capital

		No. of Shares
Ordinary shares of £0.001		35,000,004
	2018	2017
	£'000	£'000
Allotted, called up and fully paid		
At 1 January	**35**	35
Issued during the year	**-**	-
At 31 December	**35**	35

20 Operating leases

Lessee non-cancellable operating lease rentals

Non-cancellable operating lease rentals are payable as follows:

	2018	2017
	£'000	£'000
Less than one year	**9,808**	10,329
Between one and five years	**40,366**	24,284
More than five years	**7,501**	15,075
	57,675	49,688

During the year £11,316,095 was recognised as an expense in the profit and loss account in respect of operating leases (2017: £11,368,652).

The company has a lease for two storage units that are being utilised to increase the storage capacity at Grangemouth and Finnart and also has rental leases for the use of jetties at Forth Ports. The company also accounts for cargo dues based on a through put contract with rates that are agreed on an annual basis as an operating lease.

Lessor non-cancellable operating lease rentals

The parent company, 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 continued in full force until 31 December 2018, at which point it automatically continued however it may be terminated by either party, giving twelve months notice.

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

21 Capital commitments

At 31 December 2018, amounts contracted for the acquisition of property, plant and equipment is £20,867,406 (2017: £17,110,580).

22 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**	
	2018	2017	**2018**	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Ineos Group Holdings S.A.Group	**-**	-	**73,623**	52,723	**117,231**	101,622
Petroineos Trading Ltd Group	**287,619**	286,089	**1,987**	133	**325**	214
Other related parties	**-**	-	**403**	1,058	**55,479**	37,270
	287,619	286,089	**76,013**	53,914	**173,035**	139,106

	Receivables outstanding		**Creditors outstanding**	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Ineos Group Holdings S.A.Group	**7,149**	2,546	**2,813**	2,128
Petroineos Trading Ltd Group	**31,751**	38,081	**3,358**	114
	38,900	40,627	**6,171**	2,242

23 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
The Adelphi
1-11 John Adam Street
London
WC2N 6HT

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

24 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 and note 17.

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,
- discount rate for scheme liabilities,
- life expectancy; and
- asset valuations.

Details of post employment benefits are set out in note 18.

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 higher of value in use and the fair value less cost to sell. Value in use is assessed on the net present value of future cash flows derived from the relevant assets, using cash flow projections which have been discounted at an appropriate discount rate. Fair value less cost to sell are determined based on comparable market transactions in the sector over the last five years and the multiples experienced on those transactions.

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)*

25 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. As at 1 January 2018, IFRS 9 replaced the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model in assessing the recoverability of trade debtors. The Company will review the assumptions of the ECL model on a yearly basis.