

Registration number: 8566216

Valero Energy Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2018



Valero Energy Ltd

Contents

Company Information	1
Strategic Report	2 to 3
Directors' Report	4 to 5
Statement of Director's responsibilities in respect of the Annual report and Financial Statements	6
Independent Auditor's Report to the members of Valero Energy Ltd	7 to 9
Profit and Loss Account	10
Balance Sheet	11
Statement of Changes in Equity	12
Notes to the Financial Statements	13 to 28

Valero Energy Ltd

Company Information

Directors	M A Dooley E A Fisher N E V Roberts E Tomp
Company secretary	Law Debenture Corporate Services Limited
Registered office	Fifth Floor 100 Wood Street London EC2V 7EX
Auditor	KPMG LLP Chartered Accountants 15 Canada Square London E14 5GL

Valero Energy Ltd

Strategic Report for the Year Ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

Principal activity

The principal activity of the company is the refining of crude oil and the distribution, transport and marketing of refined petroleum products. The company's marketing activity is under the Texaco brand.

Fair review of the business

The company made a profit after taxation for the year of £173.7m (2017: profit of £357.4m). The net assets of the company were £2,309.7m at 31 December 2018 (£2,166.0m at 31 December 2017).

There was a slight decrease in the number of Texaco branded service stations during the year as certain low volume sites were closed. The value of the sales of petroleum products increased by over 30% compared to 2017 which was mainly due to higher product prices.

On 31 January 2018, the company paid a dividend of £30 million to its parent company Valero Holdco UK Ltd.

In March 2018 the company's ultimate parent company Valero Energy Corporation gave its approval for the construction of a Combined Heat and Power Cogeneration ("COGEN") Unit at the Pembroke Refinery, following the Welsh Government's decision to grant planning permission for the planned £127 million project. This project will significantly reduce the refinery's demand on the National Grid, releasing capacity for use by other purchasers and consumers and will also deliver a reduction in CO₂ emissions. The success of this project will secure the longevity of the plant, maintain the refinery's contribution towards Welsh export GDP, provide job security for more than 1,000 employees and underpin continued support for the local supply chain, the Port of Milford Haven and local businesses both within Pembrokeshire and along the M4 corridor.

Key performance indicators

Key financial and other performance indicators relating to sales, volumes, margins and operating costs are reviewed on a monthly basis by the company's management team.

The company also monitors a number of non-financial performance indicators, one key one being refinery utilisation, which for the year was 80.3% (2017: 84.2%). Other non-financial indicators include those monitoring health and safety statistics of refinery employees and contractors.

Principal risks and uncertainties

The company is subject to various risks and uncertainties in the course of its ordinary business. Many of these risks and uncertainties are inherent in the refining of crude oil and distribution, transport and marketing of petroleum products. The company has identified risks and uncertainties relevant to its business and these include, but are not limited to the following:

- volatility of future crude and petroleum product prices;
- worldwide and domestic demand for petroleum products;
- changes in weather patterns and natural disasters;
- credit and treasury risks (liquidity/foreign exchange);
- price and availability of alternative and competing fuels; and
- general economic conditions.

Valero Energy Ltd

Strategic Report for the Year Ended 31 December 2018 (continued)

Other risks identified are:

Political risk

Brexit may adversely impact the company, however the uncertainties surrounding the UK leaving the European Union mean the directors are unable to quantify exactly the likely effects at the date of this report. Together with other

Valero group companies in the UK, the company has put in place various contingency plans based on possible Brexit scenarios.

Credit risk

The company has implemented policies that require appropriate credit checks on customers before sales are made. The overall level of indebtedness is monitored closely by the company's credit group.

Liquidity risk

The company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. This is achieved by placing surplus funds on deposit. All cash accounts are managed at Valero Energy Corporation group level.

Cash flow risk

The company can have both interest bearing assets and liabilities which are generally held at floating rates. These are monitored on a daily basis by a treasury management group and an appropriate structure of investments and borrowings maintained. The company does not hedge interest rate risks.

Foreign exchange risk

The company has assets and liabilities denominated in foreign currencies. To meet operational needs the company forward purchases US Dollars for periods of less than one month to match payments due for third party crude oil purchases.

Many of the risks and uncertainties as mentioned above are beyond the company's control. The company has taken steps to manage and minimise certain risks and uncertainties. These include:

- maintaining a highly experienced and professional team;
- applying procedures/controls to manage financial exposures and operational risks;
- applying procedures/controls to manage environmental and occupational health and safety matters;
- employing insurance and risk management programmes; and
- regular reviews of the company's operational results.

Approved by the Board on 23 July 2019 and signed on its behalf by:



.....
N E V Roberts
Director

Valero Energy Ltd

Directors' Report for the Year Ended 31 December 2018

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

Directors of the company

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

M A Dooley (appointed 1 June 2018)

E A Fisher

N E V Roberts

E Tomp

M E Loeber (resigned 23 July 2018)

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operational existence for at least one year from the date of signing these financial statements.

Political donations

The company did not make any political donations or incur any political expenditure during the year (2017: £nil).

Future developments

The directors expect the current level of business activity to continue in the future.

Financial instruments

The company's financial instruments consist of derivative financial instruments which are swaps and future contracts and non-derivative financial instrument which are trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. The main purpose of the financial instruments are to provide working capital for the company's continuing activities and providing funding for future activities.

Results and dividends

The company's profit after taxation for the year of £173.7m (2017: profit of £357.4m). A dividend of £30m was paid to its parent company Valero Holdco UK Ltd on 31 January 2018 (2017: £nil).

Retained profits transferred to reserves at 31 December 2018 were £173.7m (2017: retained profits of £357.4m), contributing to an increase in shareholders' funds to £2,309.7m (2017: shareholders' funds £2,166.0m).

Directors liabilities

The company maintains liability insurance for its directors and officers. The company also provides an indemnity for its directors, which is a qualifying third party indemnity provision for the purposes of section 234 of the Companies Act 2006, and was in force throughout the period and up until the date of this report.

Employment of disabled persons

It is the policy of the company and its parent, Valero Holdco UK Ltd, to ensure that all employees receive equal treatment and are judged solely on merit and capability. Group policy also aims to ensure that all job applications from disabled people receive full and fair consideration. Every effort is made to continue the employment of, and arrange appropriate training for, those employees who become disabled during their period of employment, as well as giving equal opportunities with all other employees to progress within the group.

Valero Energy Ltd

Directors' Report for the Year Ended 31 December 2018

Employee involvement

The group is committed to the principle of employee involvement and its practice is to provide employees with information on matters of concern to them. The group consults with employees and their representatives in order that their views can be taken into account on such matters as are appropriate.

The group communicates and consults with employees at the local level through regular formal meetings and as necessary by ad hoc consultation and negotiation with the employees and their representatives. In addition the group uses employee intranet and e-mails from senior management as further means of communicating items with their employees and their activities.

Employees who work for the company may be entitled to join the Valero UK Share Incentive Plan, which is sponsored by Valero Operations Support, Ltd, another group entity registered in the UK. This plan was set up on 1 August 2011 and is administered by Computershare Trustees Limited, The Pavillions, Bridgewater Road, Bristol BS13 8AE. Under the rules of the scheme Valero Operations Support, Ltd will match every share bought by an employee in Valero Energy Corporation with two matching shares (up to a certain limit). These matching shares will be held in a UK registered trust until the employee has completed 3 years of service. Further details of the plan are disclosed in the accounts of Valero Operations Support, Ltd.

Disclosure of information to the auditor

As far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Relevant audit information is information needed by the company's auditor in connection with preparing their report. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Other information

An indication of likely future developments in the business has been included in the Strategic Report on page 2. Additionally, subsequent to the end of the financial year, the company paid a dividend of £30 million to its parent company Valero HoldCo UK Ltd on 30 January 2019, see note 23 to the Financial Statements.

Reappointment of auditor

Pursuant to Section 487(2) of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board on 23 July 2019 and signed on its behalf by:



.....
N E V Roberts
Director

Valero Energy Ltd

Statement of Director's responsibilities in respect of the Annual report and 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 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 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.

Independent Auditor's Report to the members of Valero Energy Ltd

Opinion

We have audited the financial statements of Valero Energy Ltd ("the company") for the year ended 31 December 2018 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

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 profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The Impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and 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 Valero Energy Ltd

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 6, 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

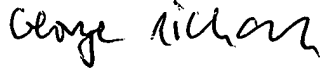
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit 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 these 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 Valero Energy Ltd

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.



.....
George Richards (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

23 July 2019

Valero Energy Ltd

Profit and Loss Account for the Year Ended 31 December 2018

	Note	2018 £ m	2017 £ m
Turnover	3	10,443.7	7,593.6
Cost of sales		<u>(9,932.6)</u>	<u>(6,945.1)</u>
Gross profit		511.1	648.5
Distribution costs		(259.1)	(247.3)
Administrative expenses		(39.5)	(39.1)
Other operating income		<u>0.0</u>	<u>0.3</u>
Operating profit	4	212.5	362.4
Income from shares in subsidiary undertakings		0.0	63.7
Income from participating interests		1.6	2.2
Other interest receivable and similar income	5	3.4	1.5
Interest payable and similar charges	6	<u>(3.5)</u>	<u>(3.0)</u>
Profit before tax		214.0	426.8
Taxation	10	<u>(40.3)</u>	<u>(69.4)</u>
Profit for the financial year		<u>173.7</u>	<u>357.4</u>

The company has no other comprehensive income for the year other than the results above.


Valero Energy Ltd

(Registration number: 8566216)

Balance Sheet as at 31 December 2018

	Note	2018 £ m	2017 £ m
Fixed assets			
Tangible assets	11	576.2	562.2
Investments	12	<u>268.7</u>	<u>268.7</u>
		<u>844.9</u>	<u>830.9</u>
Current assets			
Stocks	13	831.1	863.3
Debtors	14	1,075.4	1,020.0
Cash at bank and in hand		<u>801.0</u>	<u>780.2</u>
		2,707.5	2,663.5
Creditors: amounts falling due within one year	15	<u>(1,171.5)</u>	<u>(1,247.7)</u>
Net current assets		<u>1,536.0</u>	<u>1,415.8</u>
Total assets less current liabilities		2,380.9	2,246.7
Creditors: amounts falling due after more than one year	15	(8.0)	(16.9)
Provisions for liabilities	17	<u>(63.2)</u>	<u>(63.8)</u>
Net assets		<u>2,309.7</u>	<u>2,166.0</u>
Capital and reserves			
Called up share capital	20	1,440.6	1,440.6
Retained earnings		<u>869.1</u>	<u>725.4</u>
Total equity		<u>2,309.7</u>	<u>2,166.0</u>

Approved and authorised by the Board on 23 July 2019 and signed on its behalf by:



N E V Roberts
Director

Valero Energy Ltd

Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £ m	Retained earnings £ m	Total £ m
At 1 January 2018	1,440.6	725.4	2,166.0
Profit for the year	0.0	173.7	173.7
Total comprehensive income	0.0	173.7	173.7
Dividends	0.0	(30.0)	(30.0)
At 31 December 2018	1,440.6	869.1	2,309.7

	Share capital £ m	Retained earnings £ m	Total £ m
At 1 January 2017	1,440.6	368.0	1,808.6
Profit for the year	0.0	357.4	357.4
Total comprehensive income	0.0	357.4	357.4
At 31 December 2017	1,440.6	725.4	2,166.0

Valero Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018

1 General information

The company is a private company limited by share capital, incorporated in England and Wales.

The address of its registered office is:

Fifth Floor
100 Wood Street
London
EC2V 7EX

2 Accounting policies

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102").

Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention, except that as disclosed in the accounting policies certain items are shown at fair value.

The presentation currency of these financial statements is £ sterling. All amounts in the financial statements have been rounded to the nearest million.

Summary of significant accounting policies and key accounting estimates

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

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report. On the basis of their assessment of company's financial position and the financial performance of the company since the balance sheet date, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported as at the balance sheet date. However, the nature of estimation means that actual outcomes could differ from those estimates.

Summary of disclosure exemptions

The company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, Valero Energy Corporation which is incorporated in the State of Delaware, USA, includes the company's cashflows in its own consolidated financial statements. These financial statements are available upon request from One Valero Way, San Antonio, Texas 78249, USA.

Additionally the company has taken advantage of the exemption in Financial Reporting Standard 102 paragraph 33.1a 'Related party transactions' from disclosing all related party transactions with wholly owned subsidiaries of the group, and as such are not required to be disclosed.

Valero Energy Ltd

Notes to the Financial Statements for the Year Ended 31 December 2018

2 Accounting policies (continued)

Foreign currency transactions and balances

Foreign currency transactions are translated to the company's functional currency using the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of petroleum products and provision of services in the ordinary course of the company's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company.

The company recognises revenue from petroleum product sales when title has transferred to the buyer, together with the risks and rewards of ownership. Any non-petroleum product revenue is recognised at the point at which risks and rewards are transferred to the buyer, in line with the appropriate contract terms.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These *timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.*

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. *Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.*

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Tangible assets

Tangible assets are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation. All borrowing costs are expensed.

Depreciation

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

2 Accounting policies (continued)

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land and properties under construction are not depreciated. The estimated useful lives are as follows:

Asset class	Useful life
Freehold land	Not depreciated
Leaseholds	8 to 33 years or over term of lease
Buildings	8 to 40 years
Plant and machinery	3 to 25 years
Assets under construction	Not depreciated until assets brought into use

Investments

Investments in equity shares are measured at cost less impairment. A review for the potential impairment of an investment is carried out if events or changes in circumstances indicate that the carrying value of the investment may not be recoverable. Such impairment reviews are performed in accordance with financial reporting standards. Impairments thus arising are recorded in the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the weighted average method.

At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in the profit and loss account.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Significant estimates and judgements are based on management's review of the most likely outcome, having given consideration to current statutory and contractual requirements, at the reporting date. Environmental obligations are based on latest technical and other data to determine the company's most probable cost of remediation. Actual costs can differ from estimates due to future changes in legislation, market conditions and other factors.

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

2 Accounting policies (continued)

Defined contribution pension obligation

Valero Operations Support, Ltd operates a defined contribution plan for employees who have joined the company on or after 1 June 2013. Contributions to the plan are paid by Valero Energy Ltd and are recognised as an expense in the profit and loss account as incurred.

Defined benefit pension obligation

Valero Operations Support, Ltd operates a defined benefit plan for employees who joined the company before 1 June 2013. Contributions to the plan are paid by Valero Energy Ltd and are recognised as an expense in the profit and loss accounts of Valero Energy Ltd and Valero Logistics UK Ltd. Contributions made on behalf of Valero Logistics UK Ltd by Valero Energy Ltd are recovered by way of intercompany recharge.

The defined benefit obligation is recognised in the accounts of Valero Operations Support, Ltd but is reimbursable by Valero Energy Ltd and Valero Logistics UK Ltd. Actuarial gains and losses recognised as other comprehensive income in the accounts of Valero Operations Support, Ltd are also reimbursable by Valero Energy Ltd and Valero Logistics UK Ltd.

Share based payments

Eligible employees of the company can participate in the Valero UK Share Incentive Plan (ESIP). The ESIP enables employees to make monthly contributions out of salary up to prescribed limits. Each month the contributions are used by the trustees of the plan to acquire shares of common stock of Valero Energy Corporation on the open market (partnership shares). The company makes a matching contribution to the trustees to acquire a matching number of shares on a two for one basis (up to a certain limit). In accordance with FRS 102, the cost of the matched portion of the shares is charged to the profit and loss account over a three year vesting period.

The company also operates a restricted stock award scheme where certain employees are granted a variable number of shares in Valero Energy Corporation annually. The grant date fair value of the awards is recognised as employee expense, taking into account the terms and conditions upon which the awards were granted.

Derivative financial instruments

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

3 Turnover

The analysis of the company's revenue for the year from continuing operations is as follows:

	2018	2017
	£ m	£ m
Sale of goods	10,435.2	7,583.3
Other revenue	8.5	10.3
	<u>10,443.7</u>	<u>7,593.6</u>

The analysis of the company's revenue for the year by market is as follows:

	2018	2017
	£ m	£ m
UK	10,152.1	7,406.7
Europe	273.7	173.4
Rest of world	17.9	13.5
	<u>10,443.7</u>	<u>7,593.6</u>

4 Operating profit

The operating profit is arrived at after charging/(crediting)

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

4 Operating profit/(loss) (continued)

	2018	2017
	£ m	£ m
Depreciation expense	46.6	42.5
Amortisation expense	5.9	5.2
Write-down of stocks to net realisable value	0.1	0.9
Foreign exchange gains	(24.6)	(11.3)
Operating lease expense - plant and machinery	3.0	2.6
Operating lease expense - other	15.7	14.9
Loss on disposal of property, plant and equipment	<u>1.3</u>	<u>1.5</u>

5 Interest receivable and similar income

	2018	2017
	£ m	£ m
Bank interest receivable	<u>3.4</u>	<u>1.5</u>

6 Interest payable and similar charges

	2018	2017
	£ m	£ m
Interest on loans from group undertakings	3.5	2.9
Other interest payable	<u>0.0</u>	<u>0.1</u>
	<u>3.5</u>	<u>3.0</u>

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2018	2017
	£ m	£ m
Wages and salaries	61.5	58.2
Share-based payments	2.1	1.9
Social security costs	7.0	6.8
Expenses related to defined benefit plans	1.3	11.1
Contributions to defined contribution plans	<u>1.0</u>	<u>0.8</u>
	<u>72.9</u>	<u>78.8</u>

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

	2018	2017
	No.	No.
Refining	511	543
Marketing and other	<u>153</u>	<u>159</u>
	<u>664</u>	<u>702</u>

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2018	2017
	£ m	£ m
Remuneration	<u>3.2</u>	<u>3.0</u>

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

8 Directors' remuneration (continued)

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2018	2017
	No.	No.
Received or were entitled to receive shares under long term incentive schemes	4	3
Accruing benefits under defined benefit pension schemes	<u>3</u>	<u>3</u>

In respect of the highest paid director:

	2018	2017
	£ m	£ m
Remuneration	1.2	1.3
Defined benefit accrued pension entitlement at the end of the period	0.0	0.0
Defined benefit accrued lump sum at the end of the period	<u>0.0</u>	<u>0.4</u>

During the year the highest paid director received, or was entitled to receive, shares under a long term incentive scheme.

9 Auditor's remuneration

	2018	2017
	£ m	£ m
Audit of the financial statements	<u>0.4</u>	<u>0.4</u>
Other fees payable to the auditor		
The audit of associated companies annual accounts	<u>0.0</u>	<u>0.0</u>

10 Income tax

a) Tax expense included in profit or loss

The tax charge/(credit) is based on the profit for the year and represents:

	2018	2017
	£ m	£ m
Current taxation		
UK corporation tax	40.2	67.2
Adjustments in respect of previous periods	<u>0.1</u>	<u>(0.1)</u>
Total current tax	<u>40.3</u>	<u>67.1</u>
Deferred taxation		
Origination and reversal of timing differences	0.1	1.9
Adjustment in respect of previous period	(0.1)	0.0
Assets transferred from Valero Energy UK Ltd	<u>0.0</u>	<u>0.4</u>
Total deferred taxation	<u>0.0</u>	<u>2.3</u>
Tax on profit on ordinary activities	<u>40.3</u>	<u>69.4</u>

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

10 Income tax (continued)

The tax charge includes £3.7m in respect of losses that have been claimed from other group companies in exchange for consideration.

b) Reconciliation of tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (2017 - lower than the standard rate of corporation tax in the UK) for the year ended 31 December 2017 of 19% (2017: 19.25%).

The differences are explained as follows:

	2018	2017
	£ m	£ m
Profit on ordinary activities before tax	<u>214.0</u>	<u>426.8</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	40.6	82.2
Expenses not deductible for tax purposes	0.1	0.1
Investment Income	(0.3)	(12.7)
Share Schemes	(0.1)	(0.2)
Current/Deferred tax rate differential	0.0	(0.3)
Deferred tax impact of assets transferred from Valero Energy UK Ltd	0.0	0.4
Prior period adjustment	<u>0.0</u>	<u>(0.1)</u>
Total current tax charge for the year	<u>40.3</u>	<u>69.4</u>

The aggregate current and deferred tax related to items that are recognised as items of other comprehensive income is £nil.

c) Tax rate changes

There will be a tax rate decrease to 17% from 1 April 2020.

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

11 Tangible assets

	Land and buildings £ m	Plant and machinery £ m	Assets under construction £ m	Turnaround costs £ m	Total £ m
Cost					
At 1 January 2018	31.6	1,311.6	62.2	128.3	1,533.7
Additions	0.0	0.0	54.4	7.5	61.9
Disposals	0.0	(7.1)	0.0	0.0	(7.1)
Transfers	0.0	23.0	(23.0)	0.0	0.0
At 31 December 2018	<u>31.6</u>	<u>1,327.5</u>	<u>93.6</u>	<u>135.8</u>	<u>1,588.5</u>
Depreciation					
At 1 January 2018	13.1	885.7	0.0	72.7	971.5
Charge for the year	0.9	25.1	0.0	20.6	46.6
Eliminated on disposal	0.0	(5.8)	0.0	0.0	(5.8)
At 31 December 2018	<u>14.0</u>	<u>905.0</u>	<u>0.0</u>	<u>93.3</u>	<u>1,012.3</u>
Carrying amount					
At 31 December 2018	<u>17.6</u>	<u>422.5</u>	<u>93.6</u>	<u>42.5</u>	<u>576.2</u>
At 31 December 2017	<u>18.5</u>	<u>425.9</u>	<u>62.2</u>	<u>55.6</u>	<u>562.2</u>

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

11 Tangible assets (continued)

Leased assets

The net carrying amount of tangible assets includes the following amounts in respect of assets held under finance leases:

2018	2017
£ m	£ m
<u>2.8</u>	<u>2.9</u>

12 Investments in subsidiaries, joint ventures and associates

	2018	2017
	£ m	£ m
Investments in subsidiaries	268.6	268.6
Investments in associates	<u>0.1</u>	<u>0.1</u>
	<u>268.7</u>	<u>268.7</u>

Subsidiaries	£ m
Cost or valuation	
At 1 January 2018	<u>268.6</u>
Carrying amount	
At 31 December 2018	<u>268.6</u>
At 31 December 2017	<u>268.6</u>

Associates	£ m
Cost	
At 1 January 2018	<u>0.1</u>
Carrying amount	
At 31 December 2018	<u>0.1</u>
At 31 December 2017	<u>0.1</u>

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

12 Investments in subsidiaries, joint ventures and associates (continued)

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	
			2018	2017
Subsidiary undertakings				
Valero Logistics UK Ltd	England	Ordinary	100%	100%
Valero Energy UK Ltd	England	Ordinary	100%	100%
Valero Energy (Ireland) Ltd	Ireland	Ordinary	100%	100%
Associates				
Aviation Fuel Services Limited	England	Ordinary	25%	25%
H & G Contracting Services Ltd (dissolved on 10 August 2017)	England	Ordinary	0.0%	0.0%
Stansted Intoplane Company Limited	England	Ordinary	20%	20%
West London Pipeline and Storage Limited (transferred from Valero Energy UK Ltd on 30 March 2017)	England	Ordinary	21%	21%

Although the beneficial interest in all the JV shareholdings was transferred to Valero Energy Ltd on 1 January 2014, Valero Energy UK Ltd continues to hold the shareholding on behalf of Valero Energy Ltd pending legal transfer for the following shareholdings:

- Aviation Fuel Services Limited
- Stansted Intoplane Company Limited
- Gatwick Airport Storage and Hydrant Company Limited
- Heathrow Airport Fuel Company Limited
- Heathrow Hydrant Operating Company Limited
- Stansted Fuelling Company Limited

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

13 Stocks

	2018 £ m	2017 £ m
Crude oil and raw materials	289.7	331.2
Finished refined products and chemicals	535.3	525.6
Miscellaneous merchandise	11.3	11.6
Write-down to net realisable value	(5.2)	(5.1)
	<u>831.1</u>	<u>863.3</u>

14 Debtors

	2018 £ m	2017 £ m
Trade debtors	876.3	886.3
Amounts owed by parent company (see note below)	8.8	3.2
Amounts owed by group undertakings (see note below)	44.8	42.9
Amounts owed by subsidiaries (see note below)	111.5	47.9
Deferred charges	20.0	20.1
Prepayments	6.7	14.2
Other debtors (see note 21)	7.3	5.4
	<u>1,075.4</u>	<u>1,020.0</u>

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

15 Creditors

	2018 £ m	2017 £ m
Due within one year		
Trade creditors	284.7	333.8
Loan owed to subsidiary (see note below)	130.8	127.3
Amounts owed to group undertakings (see note below)	287.4	330.3
Amounts owed to subsidiaries (see note below)	1.7	1.6
Social security and other taxes	415.3	400.8
Accrued expenses	33.5	39.0
Other creditors	18.1	14.9
	<u>1,171.5</u>	<u>1,247.7</u>
Due after one year		
Amounts owed to group undertakings (see note below)	<u>8.0</u>	<u>16.9</u>

The company has a term loan facility with its subsidiary, Valero Energy UK Ltd. Interest accrues quarterly at a rate of 3 month sterling LIBOR plus a margin of 2%. The loan is repayable on demand.

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

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

16 Operating leases

Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 £ m	2017 £ m
Not later than one year	7.7	5.4
Later than one year and not later than five years	0.9	6.6
Later than five years	1.5	1.5
	<u>10.1</u>	<u>13.5</u>

During the year £18.7m was recognised as an expense in the profit and loss account in respect of operating leases (2017 : £17.5m).

17 Provisions

	Environmental £ m	Deferred tax £ m	Other provisions £ m	Total £ m
At 1 January 2018	13.1	49.4	1.3	63.8
Additional provisions	0.0	0.0	0.0	0.0
Provisions used	(0.6)	0.0	0.0	(0.6)
Increase (decrease) from transfers and other changes	0.0	0.0	0.0	0.0
At 31 December 2018	<u>12.5</u>	<u>49.4</u>	<u>1.3</u>	<u>63.2</u>

Deferred Taxation

Deferred taxation provided for at 17% (2017: 17%) in the financial statements is set out below:

	2018 £ m	2017 £ m
Deferred tax		
Accelerated Capital Allowances	53.7	51.7
Share Based Payments	0.6	0.6
Bad Debt Provisions	(0.3)	(0.2)
Intercompany Pension Asset/Liability	(1.3)	(2.9)
Provisions	(0.2)	(0.2)
Derivative Contracts	(3.1)	0.4
	<u>49.4</u>	<u>49.4</u>

The amount of the net reversal of deferred tax expected to occur in the next year is £1.6m resulting in an increased deferred tax liability, relating to the reversal of existing timing differences on tangible fixed assets.

Environmental

The environmental provision relates to an ongoing programme of environmental remediation works at the Pembroke refinery. The provision is expected to be utilised between 2019 to 2038.

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

18 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £1,010,577 (2017 : £802,973).

Defined benefit pension scheme

Valero UK Pension Plan

Valero Energy Ltd employees hold contracts of employment with Valero Operations Support, Ltd. Valero Operation Support, Ltd operates a pension scheme providing retirement benefits based on final pensionable pay. At 31 December 2017, 555 Valero Energy Ltd employees were current members of the scheme which closed to new employees on 31 May 2013.

As part of its agreement with Valero Operations Support, Ltd, Valero Energy Ltd has agreed to make contributions to the scheme for its employees. Contributions paid to the scheme in 2018 amounted to £11.2m (2017: £11.6m). There were no outstanding contributions payable to the scheme at the end of the year. Expected contributions payable in the next year are £10.4m.

Full disclosure of the scheme detail is included in the accounts of Valero Operations Support, Ltd.

19 Commitments

Capital commitments

The company has commitments relating to the COGEN project and various upgrade projects at its Pembroke refinery.

The total amount contracted for, but not provided in the financial statements, was £39.4m (2017 : £3.3m).

20 Share capital

Allotted, called up and fully paid shares

	No. m	2018 £ m	No. m	2017 £ m
Ordinary shares of £1 each	<u>1,440.6</u>	<u>1,440.6</u>	<u>1,440.6</u>	<u>1,440.6</u>

Rights, preferences and restrictions

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

21 Financial instruments

Categorisation of financial instruments

	2018 £ m	2017 £ m
Financial assets measured at fair value through profit or loss	<u>6.5</u>	<u>1.8</u>

Financial assets measured at fair value

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

21 Financial instruments (continued)

Oil futures and swaps

Financial instruments open at the balance sheet date are valued at the market price at the end of the period.

The change in value included in profit or loss is £(15.2)m (2017 : £1.7m).

Foreign exchange forward purchase contracts

Foreign currency forward purchase contracts are valued at the exchange rate at the balance sheet date and the difference between the contracted price and the balance sheet date price is recognised in the profit and loss account.

The change in value included in profit or loss is £0.2m (2017 : £(1.5)m).

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

21 Financial instruments (continued)

Financial instruments at fair value through profit or loss that are not held as part of a trading portfolio and not derivatives

The analysis of the carrying amounts of the financial instruments of the group required under section 11 of FRS 102 is as follows.

Financial assets that are debt instruments measured at amortised cost

	Note	2018 £ m	2017 £ m
Trade debtors	14	876.3	886.1
Amounts owed by parent company (see note below)	14	8.8	3.2
Amounts owed by group undertakings (see note below)	14	44.8	42.9
Amounts owed by subsidiaries (see note below)	14	111.5	47.9
Other debtors	14	7.3	5.6
		<u>1,048.7</u>	<u>985.7</u>

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

Financial liabilities that are debt instruments measured at amortised cost

	Note	2018 £ m	2017 £ m
Due within one year			
Trade creditors	15	284.7	333.8
Loan owed to subsidiary (see note below)	15	130.8	127.3
Amounts owed to group undertakings (see note below)	15	287.4	330.3
Amounts owed to subsidiaries (see note below)	15	1.7	1.6
Other creditors	15	18.1	14.9
		<u>722.7</u>	<u>807.9</u>

Financial assets that are debt instruments measured at amortised cost

	Note	2018 £m	2017 £m
Due after one year			
Amounts owed to group undertakings	15	<u>8.0</u>	<u>16.9</u>

The company also has a term loan facility with its subsidiary, Valero Energy UK Ltd. Interest accrues quarterly at a rate of 3 month sterling LIBOR plus a margin of 2%. The loan is repayable on demand.

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

22 Parent and ultimate parent undertaking

The company's immediate parent is Valero HoldCo UK Ltd, incorporated in United Kingdom and with its registered office at Fifth Floor, 100 Wood Street, London ECV 7EX.

The ultimate parent undertaking is Valero Energy Corporation, incorporated in the State of Delaware, USA. The consolidated financial statements of Valero Energy Corporation are available on request from One Valero Way, San Antonio, Texas 78249, USA.

Valero Energy Ltd
Notes to the Financial Statements for the Year Ended 31 December 2018

23 Subsequent events

On 15 January 2019, the company declared a dividend of £30 million to its parent company Valero Holdco UK Ltd, which was paid on 30 January 2019.