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Petroineos Trading Limited

Annual Report and financial statements

Registered number: 107836

Year ended 31 December 2017

Contents

Strategic Report

The Directors' present the Strategic Report, Directors' report and financial statements for the year ended 31 December 2017. The Strategic Report is applicable to the Group and the Company.

Principal Activities

Petroineos Trading Limited is an integrated energy and commodity trading group of companies. Operating globally, the Group markets and distributes physical commodities sourced from our own production and from third party producers to industrial consumers. The principal activities of the Group consist of Asset Trading (AT) and Entrepreneurial Trading (ET). The main activities for AT are to supply crude oil to two refineries (in Grangemouth, Scotland and Lavera, France) and the trading and marketing of their refined products. The main activities for ET are to source a diversified range of physical commodities from third party suppliers with value added services such as freight, insurance, financing and storage, to a broad range of consumers and industrial commodity end users. As the commodity markets in which the group operates are fragmented or periodically volatile, we are able to monetise arbitrage opportunities from buying or selling commodities in different geographic locations or time periods.

Review of business and future developments

Opec, among its 14 members, agreed with Russia and some other producers in 2016 to cut production by about 1m barrels a day from the start of 2017. As a result, Brent crude prices increased from around US$56.82 per barrel in December 2016 to US$66.87 per barrel in December 2017, following a recovery in China and stronger growth across most developed nations. The trend is likely to continue into 2018 when markets will have to deal with a number of sensitive political issues.

The following strategic initiatives were under taken during the past year:

- To reinforce intensive integration between the Entrepreneurial Trading (ET) and the Asset Trading (AT) businesses, allowing more flexibility on the sourcing and processing of optimal baskets of crude oils from different geographic regions depending on market economics.
- To further enforce the programmes of cost saving and margin enhancement to improve the profitability of the Group.
- To strengthen the cooperation between the two shareholders, including refinery upgrading projects
- To focus on building capability in the trading and analysis team

In 2017, the ET desks continuously took proactive measures to optimise its resources for broadening geographic trading market and increasing market influence, by collaborating with related parties to sell US crude to European market, winning the bids of diesel and jet fuel contracts in the Baltic region and North West Europe market (NWE), and further developing Biofuel trading business in Ireland and NWE.

In the coming year, the Group will continue to pursue the strategies of growing trading volumes in three core trading divisions: crude oil, petroleum products, power and derivatives, to continue to develop more diversified portfolios to react to short-term market volatility and attain long-term business growth. The directors and management have also secured access to significant funding lines for the Group which has allowed much greater flexibility in the procurement of crude and products for processing through the refineries, and investment in the working capital required to grow the entrepreneurial trading books.

The group's refining margins increased to US$5.6 per barrel on average in 2017, due to improved refining products demand. Our refineries continued to benefit from a favourable environment throughout the year.

Both refineries have planned maintenance in the first half year of 2018, which would have a big impact on the refinery performance as a result. In the context of higher crude prices, increasing refining products inventories, refining margins have suffered so far with NWE complex margins delivering the worst quarterly performance since 2014. The Group recognise the continuing difficulties in the Refining sector in the longer term; however, with the continued support of the shareholders in the Group, and the close working relationship with Petroineos Refining Limited, the directors remain optimistic about the future success of the business.

Strategic Report *(continued)*

Review of post balance sheet events

As at 31 December 2017, the Petroineos Trading Group had available bank credit facilities of $5,095m of which $614m were utilised in the form of loans and $541m utilised in the form of Letters of Credit. As at the date of signing (2nd August 2018) of the financial statements, the bank credit facilities were $5,095m of which $1,928m were utilised in the form of loans and $402m utilised in the form of Letters of Credit. The facilities are uncommitted but are supported by a letter of comfort from PetroChina Company Limited.

Key performance indicator

Overall, the development, performance and position of the Group is managed through an integrated suite of management reporting covering all key aspects of the business. The main KPI of the Group is earnings before interest, taxation, depreciation and amortisation ('EBITDA'). Management monitors both Historical Cost ('HC') EBITDA and Replacement Cost ('RC') EBITDA.

Reconciliation of operating profit to HC EBITDA and RC EBITDA is as follows:

	Year ended 31 December 2017 $m	Year ended 31 December 2016 $m
Operating Profit	292	197
Depreciation and Amortisation	2	2
Historical cost EBITDA	294	199
(Gain) / Loss on inventory holdings	(101)	(30)
Replacement cost EBITDA	193	169

Following the recovery of crude oil and refined products price over the year, *$101m gains (2016:$30m gains)* on inventory holdings were recognized in operating profit.

EBITDA for the business includes all costs charged under the tolling agreement with Petroineos Refining Limited, and accordingly includes the costs charged by that group in relation to the substantial depreciation costs in that group (2017: $137.8m, 2016: $132.3m).

HC EBITDA represents the consolidated operating loss before depreciation, amortisation, impairment and taxation. In accordance with International Financial Reporting Standards ('IFRS'), the company uses a historic cost method of accounting for the purposes of determining inventory cost in connection with the preparation of its audited annual consolidated financial information.

As supplementary information, the Company also reports its operating profit to management to reflect cost of sales using the replacement cost method of accounting for inventory. The RC EBITDA replacement cost method of reporting values raw materials and consumables and finished goods at their replacement cost at the time the related finished goods are sold.

Although EBITDA-based measures should not be considered a substitute measure for operating profit, profit for the year, or cash flows from operating activities or other measures of performance as defined by IFRS, we believe that they provide useful information regarding our ability to meet future debt service requirements. The EBITDA measure presented may not be comparable to similarly titled measures used by other companies.

Strategic Report *(continued)*

Financial risk management

The Group's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group where appropriate. The Group is exposed to commodity price risk as a result of its operations. The Group manages its credit exposures with a set of policies for ongoing credit checks on potential and current customers or counterparties. The Group is funded through a number of external banking facilities and therefore has exposure to liquidity and debt market risk. Due to the commercial arrangement between PetroChina Company Limited and the banks, the facilities are uncommitted but are supported by a letter of comfort from PetroChina Company Limited. Interest rate exposures are managed through a wide spread of loan facilities with short term maturity.

Principal risks and uncertainties

The Group's principal risks and uncertainties are the effect of commodity markets on both its cost of raw materials and sales revenues. These risks are managed through a policy of hedging a proportion of both its raw material purchases and its production margin.

Approval - Strategic Report

Approved by the Board of Directors and signed by its order by

Ms Zhang Xiangchun
Director

2nd August 2018

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

Directors' Report

This Directors' Report is presented by the Directors on the affairs of the Group and the Company, together with the audited consolidated financial statements and auditor's report, for the year ended 31 December 2017. Details of the business, the development of the Group and likely future developments are set out in the Strategic Report.

Corporate structure

Petroineos Trading Limited (the 'Company') is incorporated and domiciled in Jersey under Jersey Law 1991 at the following address: 44 Esplanade, St Helier, Jersey, Channel Island, JE4 9WG.

Petroineos Trading Limited has fully paid share capital of $1,000 held 50.1% by PetroChina International (London) Company Limited and 49.9% by INEOS Investments (Jersey) Limited.

Results for the year

The results of the Group are set out in the Consolidated Income Statement on page 10 which shows a profit for the year of $209m (2016: Profit of $125m) as a result of improved refining margins and a consecutive successful trading year for Asset Trading and Entrepreneurial Trading.

Dividends

No interim dividend was declared during the year (2016: nil). The directors do not recommend the payment of a final dividend (2016: Nil).

Review of business and future developments

A review of the business and the future developments of the Group is presented in the Strategic Report.

Review of post balance sheet events

A review of the post balance sheet events is presented in the Strategic Report.

Financial instruments

Descriptions of the use of financial instruments and financial risk management objectives and policies, including hedging activities and exposure to price risk, credit risk, liquidity risk and cash flow risk are included in the notes to the financial statements.

Research and development

The Group business units carry out research and development activities that are necessary to support and expand their operations.

Directors' conflicts of interest

Under Jersey law and the Company's Articles of Association (which mirror section 175 of the UK Companies Act 2006), Directors must avoid a situation in which they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company. The duty is not infringed if the matter has been authorised by the Directors. Under the Articles, the Board has the power to authorise potential or actual conflict situations. The Board maintains effective procedures to enable the Directors to notify the Company of any actual or potential conflict situations and for those situations to be reviewed and, if appropriate, to be authorised by the Board. Directors' conflict situations are reviewed annually.

Directors' Report *(continued)*

Directors

The directors of the Company who were in office during the year and at the date of signing the financial statements were as follows:

Mr Zhao Yong
Mr Luo Yizhou
Mr Andrew Christopher Currie
Mr Zhang Tong
Mr Andrew Gardner (appointed on 31st Mar 2017)
Mr Gary Robert Haywood (resigned on 28th Mar 2017)
Ms Zhang Xiangchun
Mr. Franck Demay

Auditor

Pursuant to section 113 of the Companies (Jersey) Law 1991, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Disclosure of information to Auditor

So far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Facilities – parental support

All bank credit facilities are supported by a letter of comfort from PetroChina Company Limited.

The Group had no parental guarantees in place as of 31st December 2017 and 2nd August 2018.

By order of the board

Ms Zhang Xiangchun
Director

2nd August 2018

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

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') and the Company's financial statements in accordance with applicable law and UK Accounting Standards.

Companies (Jersey) Law 1991 requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and its subsidiaries and the profit and loss for that year.

In preparing those financial statements the directors should:

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

The directors confirm they have complied with all the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Petroineos Trading Limited

Opinion

We have audited the consolidated and company financial statements of Petroineos Trading Limited ("the company") for the year ended 31 December 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated Cash Flow Statement, the Consolidated and Company Statement of Changes in Equity and the related notes.

In our opinion:

- the group financial statements give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the group's affairs as at 31 December 2017 and of its profit for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework, as applied in accordance with the provisions of the Companies (Jersey) Law 1991, of the state of the parent company's affairs as at 31 December 2017; and

- the financial statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

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 and group in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

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 twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

Other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company; or
- returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the Directors are responsible for: the preparation of the Financial Statements including 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 group and parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Petroineos Trading Limited
(continued)

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.

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 Article 113A of the Companies (Jersey) Law 1991. 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

15 Canada Square

London

E14 5GL

2nd August 2018

Consolidated Income Statement
for year ended 31 December 2017

	Note	Year ended 31 December 2017 $m	Year ended 31 December 2016 $m
Revenue	2	25,988	18,044
Cost of sales		(25,675)	(17,400)
Gross Profit		**313**	**644**
Administrative expenses		(58)	(57)
Other losses	3	37	(390)
Operating Profit		**292**	**197**
Finance income	4	26	18
Finance expense	4	(68)	(59)
Net financing expense		**(42)**	**(41)**
Profit before income tax		**250**	**156**
Taxation	5	(41)	(31)
Profit for the year		**209**	**125**

All results have been derived from continuing operations.

The notes on pages 15 to 41 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

for year ended 31 December 2017

	Year ended 31 December 2017 $m	Year ended 31 December 2016 $m
Profit for the year	209	125
Items that may be subsequently reclassified to profit or loss		
Foreign exchange translation differences - foreign operations	3	(1)
Other comprehensive income / (expense) for the year	3	(1)
Total comprehensive income / (expesnse) for the year	212	124

All results have been derived from continuing operations.

The notes on pages 15 to 41 form an integral part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2017

	Note	2017 $m	2016 $m
Non-current assets			
Property, plant and equipment	6	306	307
Intangible assets	7	576	577
Deferred tax assets	8	91	111
Total non-current assets		973	995
Current assets			
Other financial assets	9	11	131
Inventories	10	779	1,136
Trade and other receivables	11	2,002	1,488
Cash and cash equivalents		279	6
Total current assets		3,071	2,761
Total assets		4,044	3,756
Current liabilities			
Other financial liabilities	12	57	225
Interest-bearing loans and borrowings	13	614	1,304
Trade and other payables	14	2,770	1,836
Total current liabilities		3,441	3,365
Total assets less current liabilities		603	391
Total liabilities		3,441	3,365
Net assets		603	391
Equity attributable to owners of the parent			
Share capital	15	-	-
Share premium	15	854	854
Translation reserve		(7)	(10)
Accumulated losses		(244)	(453)
		603	391
Total equity		603	391

The notes on pages 15 to 41 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 2nd August 2018 and were signed on its behalf by:

Ms. Zhang Xiangchun
2nd August 2018

Mr. Andrew Gardner
2nd August 2018

Consolidated Statement of Changes in Equity

for year ended 31 December 2017

	Share capital $m	Share premium $m	Translation reserve $m	Accumulated losses $m	Total equity $m
Balance at 1 January 2017	-	854	(10)	(453)	391
Total comprehensive income for the year					
Profit for the year	-	-	-	209	209
Other comprehensive income	-	-	3	-	3
Total comprehensive income for the year	**-**	**-**	**3**	**209**	**212**
Balance at 31 December 2017	**-**	**854**	**(7)**	**(244)**	**603**

	Share capital $m	Share $m	Translation $m	Accumulated $m	Total equity $m
Balance at 1 January 2016	-	854	(9)	(578)	267
Total comprehensive expense for the year					
Loss for the year	-	-	-	125	125
Other comprehensive expense	-	-	(1)	-	(1)
Total comprehensive expense for the year	**-**	**-**	**(1)**	**125**	**124**
Balance at 31 December 2016	**-**	**854**	**(10)**	**(453)**	**391**

All results have been derived from continuing operations.

The notes on pages 15 to 41 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2017

	Note	Year ended 31 December 2017 $m	Year ended 31 December 2016 $m
Cash flows from operating activities			
Profit before income tax		250	156
Adjustments for:			
Depreciation, amortisation and impairment	6	2	2
Financial income	4	(26)	(18)
Financial expense	4	68	59
Tax paid	5	(1)	(1)
		293	198
Increase in trade and other receivables	11	(514)	(120)
Decrease / (increase) in inventories	10	357	(343)
Decrease in other financial assets	9	120	196
(Decrease) / increase in other financial liabilities	12	(168)	206
Increase / (decrease) in trade and other payables	14	911	(644)
		706	(705)
Net cash from operating activities		**999**	**(507)**
Cash flows from investing activities			
Interest received	4	26	18
Acquisition of property, plant and equipment	6	-	(1)
Acquisition of intangible assets	7	-	(3)
Net cash from investing activities		**26**	**14**
Cash flows from financing activities			
Proceeds from new loans	16	614	1,304
Interest paid		(62)	(53)
Repayment of borrowings	16	(1,304)	(753)
Net cash from financing activities		**(752)**	**498**
Net increase in cash and cash equivalents		273	5
Cash and cash equivalents at beginning of year		6	1
Cash and cash equivalents at 31 December		**279**	**6**

The notes on pages 15 to 41 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1 Accounting policies

1.1 Basis of preparation

Petroineos Trading Limited (the 'Company') is incorporated and domiciled in Jersey under Jersey Law 1991.

The Group financial statements consolidate the results of the Company and its subsidiaries (together referred to as the 'Group') and equity account the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). The Company has elected to prepare its parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"); these are presented on pages 42 to 54.

The accounting policies set out below have, unless otherwise stated, been applied consistently in these Group financial statements.

1.2 Measurement convention

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

1.3 Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 4. In addition, note 16 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management policies; details of its financial instruments; and its exposures to credit, market and liquidity risk.

After assessing all relevant data, including the Letter of Support from Petrochina Company Limited, the current facilities, and those to be secured over the coming month, the current utilisation of these facilities and the future cashflows of the business; the company is in an overall net assets position and has considerable financial resource, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. As a result the financial statements have been prepared on the going concern basis of accounting.

1.4 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.6 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognised directly in other comprehensive income. 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.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, US Dollars, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the foreign currency translation reserve, net of amounts previously attributed to non-controlling interests, is recycled to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is recycled to profit or loss.

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve. Foreign currency differences arising on the retranslation of a hedge of a net investment in a foreign operation are recognised directly in equity, in the translation reserve, to the extent that the hedge is effective. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is recycled to the income statement as an adjustment to the profit or loss on disposal.

The Group has taken advantage of the relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to Adopted IFRSs.

1.7 Non-derivative financial instruments

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

Trade and other receivables

Trade and other receivables 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 payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.7 Non-derivative financial instruments (continued)

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.

1.8 Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. Contracts to buy or sell crude or refined products that meet the Group's own purchase or sales requirements and hence meet the 'own use exception' within IAS 39 are accounted for on an accruals basis. The Group does not apply hedge accounting to any of its financial instruments.

Fair value measurement

The Group measures financial instruments and non-financial assets, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.9 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

1.10 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Such costs include costs directly attributable to making the assets capable of operating as intended. Depreciation is provided on all tangible fixed assets at rates calculated to write off the costs, less any estimated residual value based on prices prevailing at the date of acquisition, of each asset over its expected useful life as follows:

- Leasehold improvement - 10% per annum
- Furniture and fittings - 25% per annum

1.11 Inaccessible inventory

As a consequence of crude and product tank design, a proportion of inventory held in each tank is unable to be accessed while these tanks are being used in the normal day to day operations of the business. In addition there is a proportion of inventory which represents a minimum operating level for each tank below which the normal tank operations are adversely affected and as a consequence the company does not operate below this level. This inventory is classified as inaccessible inventory, and is capitalised in property, plant and equipment.

All inaccessible inventories are valued as per the inventory valuation process as at the date of capitalisation.

As part of a maintenance programme it is necessary for tanks to be temporarily taken out of operational use and at this time all inventory, including the inaccessible inventory, from these tanks would be released and refilled when returning to operational use. Additions and disposals will only be recognised when maintenance occurs at year end. Should a tank be permanently decommissioned the company would amend the valuation to reflect the reduction in inaccessible volumes at the time of the decommissioning.

Inaccessible inventory is not depreciated but is tested annually for impairment.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.12 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software - 5 years

In valuing intangible assets, a number of key assumptions were applied including those relating to the discount rate, useful economic lives and forecast cash flows. The relevant discount rate for the Refining Business has been determined from first principles, firstly based on an implied rate of return in the acquisition using the purchase consideration ('IRR') and the forecasts on which the business was acquired and secondly a theoretically derived discount rate.

The discount rate applicable to the cash-generating units as a whole is not the rate that is applicable to the individual intangible assets when considered in isolation. The overall rate reflects the weighted average of the rates of return on relatively less risky assets, such as current and fixed assets, and the relatively more risky assets such as any residual goodwill. These take into account the fact that the market for the refinery products is a highly liquid market. In the absence of any contract, a market participant would be able to sell output at spot prices which are determined based on Platt's index. Therefore the premium price achievable on the existing contracts over the spot price has been assessed for the financial year.

1.13 Inventories

Inventories, other than inventories held for trading purposes are stated at the lower of cost and net realisable value. Cost is based on the moving average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Inventories held for trading purposes are stated at fair value less costs to sell and any changes in fair value are recognized in the income statement.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.14 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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. 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 the income statement.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories 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 period 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 purposes 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' or 'CGU'). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs. 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.

1.15 Impairment

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 (or group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. 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 to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.16 Employee benefits

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 Group 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.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and where 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.

1.17 Revenue

Revenue represents the invoiced value of products sold or services provided to third and related parties net of sales discounts, value added tax and duties. Revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and the revenue can be reliably measured.

The pricing for products sold is determined by market prices (market contract) or is linked by formula to published raw material prices plus an agreed additional amount (formula contracts). Revenue arising from the sale of goods is recognised when the goods are either despatched or delivered depending on the relevant delivery terms and the point at which risks and rewards have been transferred to the buyer, when the prices are determinable and when collectability is considered probable.

1.18 Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Payments in relation to the tolling operating lease are recognised as incurred, see note 17. Lease incentives received are recognised in the income statement 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.

Financing income and expenses

Financing expenses comprise interest payable, and finance leases recognised in profit or loss using the effective interest method, and unwinding of the discount on provisions. 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. Financing income comprises interest receivable on funds invested and dividend income.

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 income statement on the date the entity's right to receive payments is established.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.19 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences 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. Deferred tax is not discounted.

1.20 Changes in accounting policies and disclosures

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

IFRS 9 Financial Instruments - IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group will adopt the new standard on the required effective date..

IFRS 15 Revenue from contracts with Customers - The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group is currently performing a high level impact assessment of IFRS 9 and IFRS 15. The assessment is ongoing based on the currently available information and may be subject to change arising from further detailed analysis and additional supportive information being made available to the Group. Currently the Group, expects no significant impact on its financial statements based on the current review, and will continue closely assessing this with an overall detailed action plan under modified retrospective method.

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 group will adopt the new standard on the effective date. The financial impact has not yet been determined but is expected to be material.

Notes to the Consolidated Financial Statements *(continued)*

2 Revenue

	Year ended 31 December 2017 $m	Year ended 31 December 2016 $m
Asset trading - Grangemouth	3,973	3,339
- Lavera	5,471	3,742
Entrepreneurial trading	16,544	10,963
Total revenues	25,988	18,044

3 Other Gains / (Losses)

	Year ended 31 December 2017 $m	Year ended 31 December 2016 $m
Financial assets at fair value through profit and loss:		
Fair value gain/ (loss)	37	(390)
	37	(390)

4 Finance income and expense

Recognised in profit or loss

	Year ended 31 December 2017 $m	Year ended 31 December 2016 $m
Finance income		
Interest income	26	18
Total finance income	26	18
Finance expense		
Interest expense, guarantee fee and other bank charges	(59)	(53)
Net foreign exchange loss	(9)	(6)
Total finance expense	(68)	(59)

Notes to the Consolidated Financial Statements *(continued)*

5 Taxation

Recognised in the income statement

	Year ended 31 December 2017 $m	Year ended 31 December 2016 $m
Current tax		
Current tax on profit for the year	21	1
Overseas current tax on profits for the year	1	1
Adjustments in respect of prior years	(1)	-
Current tax expense	21	2
Deferred tax		
Origination and reversal of temporary differences	19	21
Reduction in tax rate	-	8
Adjustments in respect of prior years	1	-
Deferred tax charge for the year	20	29
Total tax expense	41	31

Reconciliation of effective tax rate

The tax assessed for the year is the lower (2016: same) as the standard rate of tax in the UK of 19.25% (2016 20%).

The differences are explained as below:

	2017 $m	2016 $m
Profit for the year	209	125
Taxation	(41)	(31)
Profit before income tax	250	156
Tax using the UK corporation tax rate of 19.25% (2016: 20%)	48	31
Recognition of previously unrecognised tax losses	(5)	(5)
Change in tax rates	(2)	5
Adjustments in respect of prior years	-	-
Total tax expense	41	31

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017.

A further 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 2017 were re-measured based on the above tax rates.

Notes to the Consolidated Financial Statements *(continued)*

6 Property, plant and equipment

	Fixtures and fittings	Inaccessible inventory	Total
	$m	$m	$m
Cost			
Balance at 1 January 2016	5	303	308
Additions	1	-	1
Balance at 31 December 2016	6	303	309
Balance at 1 January 2017	6	303	309
Additions	-	-	-
Balance at 31 December 2017	6	303	309
Accumulated depreciation and impairment			
Balance at 1 January 2016	1	-	1
Depreciation charge for the year	1	-	1
Balance at 31 December 2016	2	-	2
Balance at 1 January 2017	2	-	2
Depreciation charge for the year	1	-	1
Balance at 31 December 2017	3	-	3
Net book value			
At 31 December 2016	4	303	307
At 31 December 2017	3	303	306

A proportion of inventory held in tank is unable to be accessed which was classified as inaccessible inventory, and is capitalised in property, plant and equipment according to inaccessible inventory policy adopted in 2014, refer to note 1.11.

Notes to the Consolidated Financial Statements *(continued)*

7 Intangible assets

	Goodwill	Customer order book	Software	Total
	$m	$m	$m	$m
Cost				
Balance at 1 January 2016	573	13	4	590
Additions	-	-	3	3
Balance at 31 December 2016	573	13	7	593
Balance at 1 January 2017	573	13	7	593
Additions	-	-	-	-
Balance at 31 December 2017	573	13	7	593

	Goodwill	Customer order book	Software	Total
	$m	$m	$m	$m
Accumulated amortisation and impairment				
Balance at 1 January 2016	-	(13)	(2)	(15)
Amortisation for the year	-	-	(1)	(1)
Balance at 31 December 2016	-	(13)	(3)	(16)
Balance at 1 January 2017	-	(13)	(3)	(16)
Amortisation for the year	-	-	(1)	(1)
Balance at 31 December 2017	-	(13)	(4)	(17)
Net book value				
At 31 December 2016	**573**	-	**4**	**577**
At 31 December 2017	**573**	-	**3**	**576**

The amortisation charge is recognised within administration expenses in the Consolidated Income Statement.

Goodwill arose on the acquisition of Petroineos Refining Limited (Previously known as INEOS Refining (Jersey) I Limited), a 100%-owned subsidiary, on 1 July 2011. The balance is not amortised but is tested annually for impairment.

Notes to the Consolidated Financial Statements *(continued)*

7 Intangible assets *(continued)*

Impairment test

The group has one Cash Generating unit, for which all the group's goodwill has been allocated. Under International Financial Reporting Standards (IAS 36) a Company is required to perform an annual impairment test to ensure the carrying value of the intangible and tangible assets are no greater than the recoverable amount, either through sale or use of the assets. Where there are no plans to sell the assets, or readily available market data on asset values, the recoverable amount is evidenced by the future Discounted Cash Flows (DCFs) of the business over the expected life of the business or into perpetuity where the Company is a going concern with no recognised end point.

Management has used a forecast period of five years as the basis for the value-in-use (VIU) calculation. The valuation model is based on the assumption that the company could enter into a similar tolling agreement with Petroineos Refining Limited or any other refineries after 5 years. The Discount factors applied to the annual cash flows in order to derive the DCF for the combined business is 10% which is the upper end of a 8% to 10% range deemed appropriate for companies in Oil & Gas business sector. This is in line with previous years. For assessing the Petroineos Trading Group on a stand alone basis we have applied a discount rate of 20% which represents a 10% premium on the combined rate based on perceived additional risk as the company's operations are not backed by any tangible assets. This premium is in line with the previous year, recognising the maturity of the business and the development of an Entrepreneurial Trading activity within the business reducing the level of perceived business risk.

Due to the Tolling agreement in place between the members of the Petroineos Refining Group and Petroineos Trading Limited and the funding arrangements for the Petroineos Refining Group via Petroineos Trading Limited's banking facilities it is the opinion of the board that the risk to Petroineos Refining Group is very low. Current discount factors deemed appropriate for non-risk companies in our business sector is between 2% and 3% and we have chosen to apply 4% recognising that the terms of the Tolling agreement does not leave Petroineos Refining Group entirely risk free, however, does protect it against a significant proportion of market risk.

The key assumptions related to this calculation are shown below:

	Rate currently applied	
	2017	2016
Number of years over which management approved forecasts are based	**5**	5
Growth rate applied beyond approved forecast period	**2.00%**	2.00%
Discount rate (Pre-tax)	**20%**	20%
Refining margins range	**$4-8 per barrel**	$4-6 per barrel

Sensitivities of recoverable amounts

The key assumptions relevant to the impairment test for the year ended 31 December 2017 are the growth rate and discount rates. Sensitivities have been applied to determine the rates that would be required in order for the recoverable amount to equal carrying value. These sensitivities have been applied in isolation.

	Rate required in order for the recoverable amount to equal the carrying value	
	2017	2016
Number of years over which management approved forecasts are based	**5**	5
Discount rate	**26.7%**	38.2%

No reasonably possible change in the growth rate assumption would result in the carrying value exceeding the recoverable amount and therefore not a key factor in assessing impairment.

Notes to the Consolidated Financial Statements *(continued)*

8 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2017 $m	Liabilities 2017 $m	Net 2017 $m
Tax value of loss carry-forwards	128	-	128
Revaluation of financial liabilities	-	(37)	(37)
Tax assets / (liabilities)	128	(37)	91

	Assets 2016 $m	Liabilities 2016 $m	Net 2016 $m
Tax value of loss carry-forwards	154	-	154
Revaluation of financial liabilities	-	(43)	(43)
Tax assets / (liabilities)	154	(43)	111

Movement in deferred tax during the year

	Unused tax losses $m	Other $m	Total $m
At 1 January 2016	192	(50)	142
Recognised in income	(38)	7	(31)
At 31 December 2016	154	(43)	111
At 1 January 2017	154	(43)	111
Recognised in income	(26)	6	(20)
At 31 December 2017	128	(37)	91

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits are probable. Deferred tax assets of $12.1m (2016: $17.8m) have not been recognised in respect of non trade loan relationship deficits amounting to $71.0m (2016: $104.5m) that can be carried forward against future taxable income Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits are probable.

9 Other financial assets

	2017 $m	2016 $m
Current		
Financial assets designated as fair value through profit or loss	11	131
	11	131

Notes to the Consolidated Financial Statements *(continued)*

10 Inventories

Inventories are expected to be recovered within 12 months. Raw materials of crude oil and refining consumables and changes in finished goods are recognised as cost of sales in the year amounted to $24,968 million (2016: $16,878 million for the year).

	2017	2016
	$m	$m
Raw material - Crude oil	567	648
Raw material - Refining consumables	172	219
Finished goods - Refined products	40	269
	779	1,136

11 Trade and other receivables

	2017	2016
	$m	$m
Trade receivables	373	258
Trade receivables due from related parties	123	226
Non-trade receivables due from related parties	738	678
Other receivables	621	172
Prepayments	147	154
	2,002	1,488

All amounts are due within 12 months.

12 Other financial liabilities

	2017	2016
	$m	$m
Current		
Financial liabilities designated as fair value through profit or loss	57	225
	57	225

Notes to the Consolidated Financial Statements *(continued)*

13 Interest-bearing loans and borrowings

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

	2017	2016
	$m	$m
Current liabilities		
Current bank loans	614	1,304
	614	1,304

The exposure of the group's borrowings to interest rate changes and the contractual re-pricing dates at the end of the reporting year are as follows:

	2016	2015
	$m	$m
6 months or less	614	1,304
	614	1,304

The carrying amounts and fair value of the non-current borrowings are as follows:

		Carrying amount		Fair value	
		2017	2016	2017	2016
		$m	$m	$m	$m
Bank loan	US dollar	535	1,283	535	1,283
	Euro	8	6	8	6
	Pound	71	-	71	-
	Chinese Yuan	-	15	0	15
		614	1,304	614	1,304

The nominal interest rate on the outstanding bank loans ranges from 0.50% to 1.77%. (2016: 0.65% to 1.62%)

14 Trade and other payables

	2017	2016
	$m	$m
Current		
Trade payables	1,816	996
Trade payables due to related parties	896	675
Non-trade payables and accrued expenses	21	95
Corporation tax payable	21	1
Other payables	16	69
	2,770	1,836

All balances are due within 12 months.

Notes to the Consolidated Financial Statements *(continued)*

15 Share capital and premium

	Number of shares	Ordinary Shares £m	Share Premium £m	Total £m
At 31 December 2016 and 31 December 2017	1,000	-	854	854

Petroineos Trading Limited has issued fully paid share capital of $1,000 held 50.1% by PetroChina International (London) Company Limited and 49.9% by INEOS Investments (Jersey) Limited. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

16 Financial instruments

16 (a) Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Interest-bearing borrowings

The carrying amount of the Group's bank loans approximate to the fair value due to their short maturities.

Derivative financial instruments

The fair value of derivative commodity contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Fair values at the year end

With the exception of derivative commodity contracts where the carrying amount is measured at the fair value, the carrying amounts of all other financial assets and financial liabilities are approximates of their fair value due to their short maturities.

Notes to the Consolidated Financial Statements *(continued)*

16 Financial instruments *(continued)*

16 (b) Credit risk

Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	$m	$m	$m	$m
2016				
Financial assets designated at fair value through profit and loss				
Derivative Commodity Contracts	131	-	-	131
2016				
Financial liabilities designated at fair value through profit and loss				
Derivative Commodity Contracts	(225)	-	-	(225)
2017				
Financial assets designated at fair value through profit and loss				
Derivative Commodity Contracts	11	-	-	11
2017				
Financial liabilities designated at fair value through profit and loss				
Derivative Commodity Contracts	(57)	-	-	(57)

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Group Treasury policy and objectives in relation to credit risk is to minimise the likelihood that the Group will experience financial loss due to counterparty failure and to ensure that in the event of a single loss, the failure of any single counterparty would not materially impact the financial wellbeing of the Group.

Notes to the Consolidated Financial Statements *(continued)*

16 Financial instruments *(continued)*

16 (b) Credit risk *(continued)*

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Management considers that the geographical concentration of credit risk is principally in the UK and France.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered or are adjusted accordingly. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

Investments, cash and cash equivalents

Surplus cash investments are only made with banks with which the Group has a relationship. Occasionally deposits are made with banking counterparties that provide financing arrangements, reducing the credit exposure of the Group.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the reporting date was the carrying amount of financial assets. Due to the diversified customer structure of the Group, there is no significant concentration of credit risk.

The ageing of trade and other receivables at the end of the reporting year / period was:

	Trade receivables		Trade receivables due from related parties		Other receivables	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
	2017	2017	2017	2017	2017	2017
	$m	$m	$m	$m	$m	$m
Days overdue						
Not yet due	373	-	123	-	621	-
Between 0-30 days	-	-	-	-	-	-
	373	-	123	-	621	-

	Trade receivables		Trade receivables due from related parties		Other receivables	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
	2016	2016	2016	2016	2016	2016
	$m	$m	$m	$m	$m	$m
Days overdue						
Not yet due	257	-	226	-	172	-
Between 0-30 days	1	-	-	-	-	-
	258	-	226	-	172	-

Notes to the Consolidated Financial Statements *(continued)*

16 Financial instruments *(continued)*

16 (c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group. The Group's exposure to liquidity is limited by the fact that it has access to significant cash resources.

The Group is reliant on funding from fifteen banks to meet the anticipated needs of the Group for the year and has facility agreements totalling $5,095 million from these banks at 31 December 2017 (2016: $5,895 million). The facilities are uncommitted but are supported by a letter of comfort from PetroChina Company Limited.

The Group forecasts on a regular basis the expected cash flows that will occur on a weekly and monthly basis. This information is used in conjunction with the weekly reporting of actual cash.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

		2017	
	Carrying amount	**Contractual cash flows**	**One year or less**
	$m	**$m**	**$m**
Non-derivative financial liabilities			
Bank loans	**614**	614	614

		2016	
	Carrying amount	**Contractual cash flows**	**One year or less**
	$m	**$m**	**$m**
Non-derivative financial liabilities			
Bank loans	**1,304**	1,304	1,304

The Group's bank facilities are uncommitted and have no expiry dates. All facilities are supported by a letter of comfort from PetroChina Company Limited. In addition to the bank loans, the Group had drawn down Letters of Credit totalling $541 million at 31 December 2017 (2016: $312 million).

The Group's undrawn facility is $3,701 million at 31 December 2017 (2016: $3,692 million).

Notes to the Consolidated Financial Statements *(continued)*

16 Financial instruments *(continued)*

16 (d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, crude oil, and feedstock will affect the value of the Group's assets, liabilities or expected future cash flows. The Group is exposed to changes in the price of crude oil and holds commodity contracts in order to manage this and other commodity market risks. The use of derivative instruments is confined to a specialist team that have the appropriate skills, experience, supervision, control and operating systems. Hedge accounting is not applied in respect of these derivatives.

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euros, Sterling and US Dollars.

The prices of finished products and of the underlying raw materials are primarily denominated in US dollars, while the administrative costs are largely denominated in Sterling and Euros.

The foreign currency exposure where the Group's financial assets / (liabilities) are not denominated in the functional currency of the operating unit involved at 31 December 2017 is shown below. Foreign exchange differences on retranslation of these assets and liabilities are taken to the income statement of the Group.

	2017	2016
	$m	$m
Euros	(14)	(28)
Sterling	4	(9)
	(10)	(37)

Sensitivity analysis

A 10% percent weakening of the following currencies against the functional currency of the operating unit at 31 December 2017 would have increased / (decreased) equity and profit or loss by the amounts shown below.

This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

	Equity 2017	Profit or loss 2017	Equity 2016	Profit or loss 2016
	$m	$m	$m	$m
Euros	-	1	-	3
Pound Sterling	-	-	-	1

A 10% percent strengthening of the above currencies against the functional currency of the operating unit at 31 December 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes to the Consolidated Financial Statements *(continued)*

16 Financial instruments *(continued)*

16 (e) Capital management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines its capital employed of $953 million (2016: $1,670 million) as shareholders' equity of $618 million (2016: $391 million) and net debt (net of issue costs) of $335 million (2016: $1,298million).

The principal sources of debt available to the Group are interest-bearing bank loans.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, raise new debt or sell assets to reduce debt.

16 (f) Net gains and losses from financial instruments

Net gains and losses from financial instruments comprise the results of valuations, amortisation of discounts, the recognition and derecognition of impairment losses, results from the translation of foreign currencies, interest, and all other effects on profit or loss of financial instruments.

	Cash and cash equivalents	Loans and receivables	Assets / (Liabilties) measured at amortised cost	Financial instruments at fair value through profit and loss
	2017	2017	2017	2017
	$m	$m	$m	$m
Foreign exchange gain / (losses)	1	-	(10)	-
Interest income / (expense)	-	26	(59)	-
Net fair value gain on derivatives	-	-	-	37
Net result	1	26	(69)	37

	Cash and cash equivalents	Loans and receivables	Assets / (Liabilities) measured at amortised cost	Financial instruments at fair value through profit and loss
	2016	2016	2016	2016
	$m	$m	$m	$m
Foreign exchange gain / (losses)	-	-	(6)	-
Interest income / (expense)	-	18	(53)	-
Net fair value losses on derivatives	-	-	-	(390)
Net result	-	18	(59)	(390)

Notes to the Consolidated Financial Statements *(continued)*

17 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
	$m	$m
Less than one year	10	10
Between one and five years	17	8
More than five years	30	1
	57	19

During the year $10 million was recognised as an expense in the income statement in respect of operating leases (2016 $9million).

On the 25th June 2018, the Company surrendered the lease related to the 7th floor of its former office, The Peak, Wilton Road, London, prior to the expiration date of 4th September 2022. The financial impact on the lease obligation as at 31st December 2017 has been estimated at $3.3m on the basis of the original lease contract value until the end of the original lease.

The Group leases items of plant and machinery under operating leases. Petroineos Refining Limited (the Tollco) owns the refining sites at Grangemouth, Scotland and Lavera, France. Toll processing agreements exist with Petroineos Trading Limited, which specify that the Grangemouth and Lavera sites will provide toll processing services to Petroineos Trading Limited. The Agreements also specify that the production schedules at Grangemouth and Lavera will be based on orders from Petroineos Trading Limited and that the sites will de facto be dedicated to this agreement.

In consideration for Petroineos Refining Limited obligations under the tolling agreements, Petroineos Trading Limited pays a processing fee. This processing fee is calculated based on the fixed, variable and depreciation actual costs incurred by the sites referable to the agreements, 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 refineries. The pricing structures are not fixed per unit of output. Total charges under the agreements for the year to 31 December 2017 were $687million (year to 31 December 2016: $664million). The agreement came into force on 1 June 2011 and shall continue in full force until 31 December 2018, at which point it shall automatically continue however may be terminated by either party, giving twelve months notice.

18 Related parties

The Group has transactions with the following related party entities (split by Group):

China National Petroleum Corporation ('CNPC') Group:

- Chinaoil (Hong Kong) Corporation Limited
- Chinaoil (Singapore) Int'L Pte Limited
- Chinaoil Shanghai International Trading Co Limited
- QingDao Chinaoil Co Limited
- China National United Oil Corporation Limited

The nature of the transactions with the CNPC Group is the sale and purchase of crude oil and oil related products.

Notes to the Consolidated Financial Statements *(continued)*

18 Related parties *(continued)*

PetroChina Company Limited Group:

- PetroChina International (Singapore) Pte Limited
- PetroChina International (Hong Kong) Co Limited
- PetroChina International (America) Inc
- PetroChina International (London) Co Ltd

The nature of the transactions with the PetroChina Company Limited Group is the sale and purchase of crude oil and oil related products.

INEOS Group Holdings SA Group:

- INEOS Europe AG
- INEOS Enterprises Limited
- INEOS SALES (UK) Limited
- INEOS Olefins SA
- INOVYN Chlor Vinlys Limited

The nature of the transactions with the INEOS Group Holdings SA Group is the sale and purchase of crude oil and oil related products.

Petroineos Refining Limited Group:

- Petroineos Refining Limited
- Petroineos Manufacturing France SAS
- Petroineos Manufacturing Scotland Limited
- Petroineos Fuels Assets Limited

The transactions with the Petroineos Refining Limited Group relate to the tolling agreement (as described in note 17).

Other related parties

- INEOS Infrastructure (Grangemouth) Limited

The nature of the transactions with other related parties is the procurement of power and jetty services.

Notes to the Consolidated Financial Statements *(continued)*

18 Related parties *(continued)*

	Sales 2017 $m	Expenses 2017 $m	Interest receivable 2017 $m	Interest payable 2017 $m	Receivables outstanding 2017 $m	Payables outstanding 2017 $m
CNPC Group	2,523	902	-		5	1
PetroChina Company Limited Group	1,719	1,566	-	10	10	765
INEOS Group Holdings SA Group	925	946	-	-	40	9
Petroineos Refining Limited Group	17	841	25	-	806	112
INEOS Infrastructure (GM) Ltd	-	-	-	-		9
Total	**5,184**	**4,255**	**25**	**10**	**861**	**896**

	Sales 2016 $m	Expenses 2016 $m	Interest receivable 2016 $m	Interest payable 2016 $m	Receivables outstanding 2016 $m	Payables outstanding 2016 $m
CNPC Group	1,113	1,184	-		29	39
PetroChina Company Limited Group	1,143	738	-	12	34	511
INEOS Group Holdings SA Group	827	145	-	-	72	28
Petroineos Refining Limited Group	10	717	18	-	769	97
Other related parties	-	-	-	-	-	-
Total	**3,093**	**2,784**	**18**	**12**	**904**	**675**

Cost recharges and cost recoveries are included in Expenses.

Payables to PetroChina Company Limited Group includes a short-term loan of $458m with PetroChina International (London) Co., Limited (2016: $514m).

Transactions with key management personnel

Directors of the Company and their immediate relatives do not control any of the voting shares of the Company.

The compensation of key management personnel (including the directors) is as follows:

	2017 $	2016 $
Key management emoluments including social security costs	4,795,210	3,932,871
	4,795,210	**3,932,871**

There were no other transactions with key management personnel other than those described above.

Notes to the Consolidated Financial Statements *(continued)*

19 Accounting estimates and judgements

The Group prepares its consolidated financial statements in accordance with IFRSs, which require management to make judgements, estimates and assumptions which affect the application of the accounting policies, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates change and in any future periods. The following areas are considered to involve a significant degree of judgement or estimation:

Fair value measurement on business combination

The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets and liabilities acquired. The determination of the fair value of the acquired assets and liabilities is to a considerable extent based upon management's judgement, and estimates and assumptions made.

Allocation of the purchase price affects the results of the Group as intangible assets are amortised over their estimated useful lives, whereas goodwill, is not amortised. This could lead to differing amortisation charges based on the allocation to indefinite and finite lived intangible assets.

On acquisition of a business, the identifiable intangible assets may include customer contracts, customer relationships and preferential supply contracts. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset. The use of different estimates and assumptions for the expectations of future cash flows and the discount rate would change the valuation of these intangible assets. The carrying amount of intangibles is disclosed in note 7.

Taxation

Management is required to estimate the tax payable in each of the jurisdictions in which the Group 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 consolidated balance sheet of the Group. 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 Group's total tax charge necessarily involves a significant degree of estimation in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority, or, as appropriate, through a formal legal process.

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

Details of amounts recognised with regard to taxation are disclosed in notes 5 and 8.

Notes to the Consolidated Financial Statements *(continued)*

19 Accounting estimates and judgements *(continued)*

Impairment reviews

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

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

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

- Growth rates of various revenue streams;
- Long term growth rates;
- Future margins;
- The selection of an appropriately risk adjusted discount rate; and
- The determination of terminal values.

Changing the assumptions selected by management, in particular the discount rate used in the present value calculation, could significantly affect the Group's impairment evaluation and results as indicated in note 7.

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.

Further details on the impairment review performed on the goodwill and intangible assets are provided in note 7, including sensitivity analysis in relation to key assumptions.

20 Post balance sheet events

As at 31 December 2017, the Petroineos Trading Group had available bank credit facilities of $5,095m of which $614m were utilised in the form of loans and $541m utilised in the form of Letters of Credit. As at the date of signing (2nd August 2018) of the financial statements, the bank credit facilities were $5,095m of which $1,928m were utilised in the form of loans and $402m utilised in the form of Letters of Credit.

Company Balance Sheet
as at 31 December 2017

	Note	2017	2016
		$m	$m
Fixed assets			
Tangible assets	2	306	307
Intangible assets	3	684	684
Investments	4	737	736
Deferred tax assets	5	88	111
		1,815	1,838
Current assets			
Stocks	6	766	1,078
Debtors	7	1,556	1,594
Cash at bank and in hand		279	6
		2,601	2,678
Creditors: amounts falling due within one year	8	4,049	4,280
Net assets		367	236
Capital and reserves			
Called up share capital	10	-	-
Share premium account	10	854	854
Profit and loss account		(487)	(618)
Total equity		367	236

The notes on pages 44 to 54 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 2nd August 2018 and were signed on its behalf by:

Ms. Zhang Xiangchun
2nd August 2018

Mr. Andrew Gardner
2nd August 2018

Company Statement of Changes in Equity
for year ended 31 December 2017

	Called up share capital	Share premium account	Profit and loss account	Total
	$m	$m	$m	$m
Balance at 1 January 2016	-	854	(664)	190
Total comprehensive income / (loss) for the year				
Profit for the financial year	-	-	46	46
Total comprehensive income / (loss) for the year	-	-	46	46
Balance at 31 December 2016	**-**	**854**	**(618)**	**236**

	Called up share capital	Share premium account	Profit and loss account	Total
	$m	$m	$m	$m
Balance at 1 January 2017	-	854	(618)	236
Total comprehensive income / (loss) for the year				
Profit for the financial year	-	-	131	131
Total comprehensive income / (loss) for the year	-	-	131	131
Balance at 31 December 2017	**-**	**854**	**(487)**	**367**

The notes on pages 44 to 54 form an integral part of these financial statements.

Notes to the Company Financial Statements

1 Company accounting policies

1.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Under Companies (Jersey) Law 1991, there is no requirement for the Company to present its individual financial statements if it has prepared consolidated financial statements. The Company has followed standard UK practice by applying the exemption under section s408 of the UK Companies Act 2006 and not presented its own profit and loss account.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"), 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 following exemption has been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 01 January 2014 have not been restated.

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 capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Petroineos Trading 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.

1.2 Measurement convention

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

1.3 Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 4. In addition, note 16 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management policies; details of its financial instruments; and its exposures to credit, market and liquidity risk.

After assessing all relevant data, including the Letter of Support from PetroChina Company Limited, the current facilities, and those to be secured over the coming month, the current utilisation of these facilities and the future cashflows of the business, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. As a result the financial statements have been prepared on the going concern basis of accounting.

Notes to the Company Financial Statements *(continued)*

1 Company accounting policies *(continued)*

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.

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 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such costs include costs directly attributable to making the assets capable of operating as intended. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets. Depreciation is provided on all tangible fixed assets at rates calculated to write off the costs, less any estimated residual value based on prices prevailing at the date of acquisition, of each asset over its expected useful life as follows:

- Fixtures and fittings - 25% per annum

1.7 Inaccessible inventory

As a consequence of crude and product tank design, a proportion of inventory held in each tank is unable to be accessed while these tanks are being used in the normal day to day operations of the business. In addition there is a proportion of inventory which represents a minimum operating level for each tank below which the normal tank operations are adversely affected and as a consequence the company does not operate below this level. This inventory is classified as inaccessible inventory, and is capitalised in property, plant and equipment.

All inaccessible inventories are valued as per the inventory valuation process as at the date of capitalisation.

As part of a maintenance programme it is necessary for tanks to be temporarily taken out of operational use and at this time all inventory, including the inaccessible inventory, from these tanks would be released and refilled when returning to operational use. Additions and disposals will only be recognised when maintenance occurs at year end. Should a tank be permanently decommissioned the company would amend the valuation to reflect the reduction in inaccessible volumes at the time of the decommissioning.

Inaccessible inventory is not depreciated but is tested annually for impairment.

Notes to the Company Financial Statements *(continued)*

1 Company accounting policies *(continued)*

1.8 Intangible assets and goodwill

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations is capitalised. At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash-generating units, expected to benefit from the combination's synergies.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the cash-generating unit to which the goodwill relates should be assessed. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Goodwill arising on business combinations prior to 1 January 2014 is stated at the previous carrying amount, less subsequent impairments, under UK GAAP.

The Companies (Jersey) Law 1991 requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the amortisation of goodwill in the Companies (Jersey) Law 1991. The company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful economic life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software 5 years

1.9 Impairment of investments

The carrying amounts of the Company's investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

1.10 Calculation of recoverable amount

The recoverable amount of fixed assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

Notes to the Company Financial Statements *(continued)*

1 Company accounting policies *(continued)*

1.11 Reversals of impairment

An impairment loss is reversed on intangible assets and goodwill only if subsequent external events reverse the effect of the original event which caused the recognition of the impairment or the loss arose on an intangible asset with a readily ascertainable market value and that market value has increased above the impaired carrying amount. For other fixed assets where the recoverable amount increases as a result of a change in economic conditions or in the expected use of the asset then the resultant reversal of the impairment loss should be recognised in the current year.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.12 Foreign currencies

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date and the gains or losses on translation are included in the profit and loss account. 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.

1.13 Inventories

Stocks, other than stocks held for trading purposes are stated are stated at the lower of cost and net realisable value. Cost is based on the moving average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Stocks held for trading purposes are stated at fair value less costs to sell and any changes in fair value are recognized in the income statement.

1.14 Deferred tax

Deferred tax is provided on timing 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. Deferred tax is not discounted.

1.15 Accruals and deferred income

Accruals and deferred income comprise expenses relating to the current year, which will not be invoiced until after the balance sheet date, and income received in advance relating to the following year.

Notes to the Company Financial Statements *(continued)*

2 Tangible fixed assets

	Fixtures and fittings	Inaccessible inventory	Total
	$m	$m	$m
Cost			
Balance at 1 January 2016	5	303	308
Additions	1	-	1
Balance at 31 December 2016	**6**	**303**	**309**
Balance at 1 January 2017	6	303	309
Additions	-	-	-
Balance at 31 December 2017	**6**	**303**	**309**
Accumulated depreciation and impairment			
Balance at 1 January 2016	1	-	1
Depreciation charge for the year	1	-	1
Balance at 31 December 2016	2	-	2
Balance at 1 January 2017	2	-	2
Depreciation charge for the year	1	-	1
Balance at 31 December 2017	3	-	3
Net book value			
At 31 December 2016	4	303	307
At 31 December 2017	3	303	306

This accounting policy for inaccessible inventory can be found in note 1.7.

Notes to the Company Financial Statements *(continued)*

3 Intangible assets

	Software	Goodwill	Total
	$m	$m	$m
Cost			
At 1 January 2017	7	746	753
Additions	-	-	-
At 31 December 2017	7	746	753
Accumulated amortisation			
At 1 January 2017	(4)	(65)	(69)
Charged in year	-	-	-
At 31 December 2017	(4)	(65)	(69)
Net book value			
At 31 December 2016	**3**	**681**	**684**
At 31 December 2017	**3**	**681**	**684**

	Software	Goodwill	Total
	$m	$m	$m
Cost			
At 1 January 2016	4	746	750
Additions	3	-	3
At 31 December 2016	7	746	753
Accumulated amortisation			
At 1 January 2016	(3)	(65)	(68)
Charged in year	(1)	-	(1)
At 31 December 2016	(4)	(65)	(69)
Net book value			
At 31 December 2015	**1**	**681**	**682**
At 31 December 2016	**3**	**681**	**684**

The goodwill arose on the purchase of the trade and assets of Petroineos Europe Limited, a 100%-owned subsidiary, on 3 April 2012 for a consideration of $2,067 million. The goodwill is not amortised but is tested annually for impairment.

Notes to the Company Financial Statements *(continued)*

4 Investments

2017	Shares in group undertakings
	$m
Cost and net book value	
At 1 January 2017	736
At 31 December 2017	736

2016	Shares in group undertakings
	$m
Cost and net book value	
At 1 January 2016	736
At 31 December 2016	736

The directors believe that the carrying value of the investments is supported by the underlying net assets of the relevant subsidiary companies.

Name	Address	Country of incorporation	Class of shares held	Ownership	
				2017	2016
Petroineos Fuels Limited	5 Wilton Road London United Kingdom SW1V 1AN	England	Ordinary	100%	100%
Petroineos Europe Limited	5 Wilton Road London United Kingdom SW1V 1AN	England	Ordinary	100%	100%
Petroineos Services France SAS	Avenue de la Bienfaisance BP 6 13117 Lavera France	France	Ordinary	100%	100%

Notes to the Company Financial Statements *(continued)*

5 Deferred tax assets

Deferred tax assets are attributable to the following:

	2017 $m	2016 $m
Losses	125	154
Revaluation of financial liabilities	(37)	(43)
Deferred tax asset	88	111

Analysis of movement in provisions:

	2017 $m	2016 $m
Opening balance	111	142
Profit and loss account	(23)	(31)
Deferred tax asset	88	111

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. Where there is uncertainty of the reversal, these amounts remain unrecognised.

6 Inventories

	2017 $m	2016 $m
Raw material - Crude oil	567	648
Raw material - Refining consumables	167	195
Finished goods - Refining products	32	235
	766	1,078

Notes to the Company Financial Statements *(continued)*

7 Debtors

	2017	2016
	$m	$m
Trade receivables	26	34
Amounts owed by group undertakings	191	199
Amounts owed by related parties	859	903
Other receivables	322	173
Other financial assets	11	131
Prepayments and accrued income	147	154
	1,556	1,594

All debtors are due within 12 months.

8 Creditors: amounts falling due within one year

	2017	2016
	$m	$m
Bank loans	614	1,304
Trade creditors	470	820
Amounts owed to group undertakings	1,268	1,149
Amounts owed to related parties	894	675
Corporation tax payable	19	-
Other financial liabilities	57	225
Accruals and deferred income	727	107
	4,049	4,280

9 Bank loans

		Carrying amount		Fair value	
		2017	2016	2017	2016
		$m	$m	$m	$m
Bank loan	US dollar	535	1,283	535	1,283
	Euro	8	6	8	6
	Pound	71	-	71	-
	Chinese Yuan	-	15	0	15
		614	1,304	614	1,304

The nominal interest rate on the outstanding bank loans ranges from 0.50% to 1.77%. (2016: 0.65% to 1.62%). The maturity was less than 6 months. The facilities are uncommitted but are supported by a letter of comfort from PetroChina Company Limited.

Notes to the Company Financial Statements *(continued)*

10 Called up share capital

	Number of shares	Ordinary Shares £m	Share Premium £m	Total £m
At 31 December 2016 and 31 December 2017	1,000	-	854	854

This entity has fully paid share capital of $1,000 held 50.1% by PetroChina International (London) Company Limited and 49.9% by INEOS Investments (Jersey) Limited. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium account
The balance on the share premium account represents the amounts received in excess of the nominal value of the ordinary shares.

Dividends

A dividend has not been declared (*2016: $nil*).

Notes to the Company Financial Statements *(continued)*

11 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 2017, are as follows:

	Sales 2017	Expenses 2017	Interest receivable 2017	Interest payable 2017	Receivables outstanding 2017	Payables outstanding 2017
	$m	$m	$m	$m	$m	$m
CNPC Group	2,523	901			5	1
PetroChina Company Limited Group	1,719	1,566		10	10	764
INEOS Group Holdings SA Group	925	946			40	9
Petroineos Refining Limited Group	17	841	25		804	111
INEOS Infrastructure (GM) Ltd						9
	5,184	4,254	25	10	859	894

	Sales 2016	Expenses 2016	Interest receivable 2016	Interest payable 2016	Loan receivables outstanding 2016	Loan payables outstanding 2016
	$m	$m	$m	$m	$m	$m
CNPC Group	1,113	1,184			29	39
PetroChina Company Limited Group	1,143	738		12	34	511
INEOS Group Holdings SA Group	827	145			72	28
Petroineos Refining Limited Group	10	714	18		768	97
	3,093	2,781	18	12	903	675

12 Ultimate parent undertaking and controlling party

The Company's immediate parent company is PetroChina International (London) Company Limited and ultimate parent undertaking and controlling party is PetroChina Company Limited. The financial statements of the smallest and largest group consolidating the Company may be obtained from:

Petroineos Trading Limited
The Adelphi,
1-11 John Adam Street
London
WC2N 6HT