

Eastham Refinery Limited

Report and Financial Statements

31 December 2013

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COMPANIES HOUSE

Directors

R Childs
J V D Werff
J P J Dubois
R S G Allgulander
S N Day
A Bagnall
D Topcliffe

Secretary

Shell Corporate Secretary Limited

Auditors

Ernst & Young LLP
100 Barbirolli Square
Manchester M2 3EY

Bankers

HSBC
8 Canada Square
London E14 5HQ

Registered Office

8 York Road
London SE1 7NA

Strategic Report

Principal activities and review of the business

The principal activity of Eastham Refinery Limited (ERL) is the Toll processing of crude oil and other hydrocarbon feedstock to produce bitumen and a range of distillate products. As of 1 January 2013 Eastham Refinery Limited moved to a tolling operation whereby the company processes crude and hydrocarbon feedstock supplied by the Shareholders in return for a processing fee.

Key performance indicators

To ensure that the goals of the business are met and customers are supplied effectively and efficiently the Board has endorsed a set of performance targets for all areas of the business. The targets of the business are communicated annually to the staff.

The key targets for the coming year are:

- Minimise the total recordable case frequency related to personal injury
- Minimise process safety related incidents
- Improve CO2 emissions per tonne of feedstock processed over 2013 performance
- Minimise incidents that impact on the environment
- Identify energy improvements that reduce overall energy utilisation
- Deliver the capital investment programme as defined for 2014
- Ensure plant reliability is maintained to the targeted level
- To operate the refinery in as cost efficient manner as possible, within the boundaries given by the HSE and reliability targets.

These objectives are supported by a series of sub targets and performance indicators which are reported and monitored by the Board to ensure that the long-term objectives of the organization are met.

Principal risks and uncertainties

Trading risks

The refinery is reliant on demand from both shareholders, who supply crude and other hydrocarbon feedstocks for ERL to process, to supply them with their end bitumen and distillate requirements. The Company has an indirect supply risk relating to the supply of heavy crude from Venezuela, which in part is required to blend into a number of the end products being produced. With the successful introduction of new hydrocarbon feedstock for processing and the move to a tolling operation as of 1 January 2013, this risk has become considerably less significant and an indirect risk.

Exchange risks

Exchange rate risk has been considered by the Board. With the move to a tolling operation there has been very limited purchases of supplies in foreign currency, the Board does not envisage any exchange risks.

Financial risks

ERL is a 50:50 joint venture between Shell UK Limited and Nynas Limited. The Company has access to shareholder loans and its own banking facilities which provide sufficient working capital for business needs. The Company does not have significant exposure to debt repayments or interest demands. The move to a tolling operation as of 1 January 2013, under which processing fees are set at levels to produce a target percentage return on capital employed, removes a significant element of overall financial risk.

Principal risks and uncertainties (continued)

Liability risks

The Board have considered other risks, such as environmental and legal claims and are not aware of any claims as at this date. The refinery management team consider all factors that could provide an environmental risk and take the appropriate actions to put safeguards in place. There is no known exposure to legal claims as of 31 December 2013.

General business review – statement of income

Turnover decreased by 94% in the year to £24.2m (2012: £399.3m).

During the year the company made an operating profit of £4.2m (2012: loss of £1.6m). The result before taxation was a profit of £3.9m (2012: loss of £2.2m).

The company made a profit for the financial year, net of taxation of £3.5m (2012: loss of £1.5m).

The key driver to the decrease in turnover was the move to Tolling on 1 January 2013. The Company no longer purchases hydrocarbon feedstock at high cost to produce bitumen and distillate products for sale to the Shareholders. Turnover is therefore reduced from the sale of these products to a processing fee only.

Prior to the switch to Tolling the company profitability relied on purchasing, processing and selling hydrocarbon feedstocks to its Shareholders and the level of profitability was subject to fluctuations in the costs of the underlying crude feedstocks and the variable costs of production. Under tolling, profitability is less volatile as feedstocks are purchased by the shareholders and ERL's profitability is based on cost plus a margin applied to achieve a designated return on capital employed.

General business review – statement of financial position.

Total assets decreased during the year by £24.5m to £31.4m (2012: £55.9m), a 44% decrease (2012: 37% decrease).

The movement was primarily driven by a reduction in current assets, with the significant factor being a reduction of £24.6m in trade and other receivables. Due to the move to tolling the trade receivables from related parties reduced by £24.9m, reflecting the one off sale of bulk feedstocks to the Shareholders, not settled as at 31 December 2012 and a reduction in sales by charging a Tolling processing fee.

Total liabilities at the year end amounted to £17.0m (2012: £41.5) a decrease of 59% (2012: 11% decrease). The movement primarily consisted of a reduction of £11.8m in trade and other payables and a reduction of £13.0m in interest bearing loans and borrowings. With the move to Tolling the Company no longer makes large provision for payment of hydrocarbon feedstocks also the company no longer needs to borrow significant funds from the Shareholders to pay for such feedstock.

General business review – statement of cashflow

The overall cash overdraft position decreased by £45k to £4.7m (2012: £4.7m).

There was a net cash inflow from operating activities this year of £20.6m (2012: £36.2m). This was mainly as a result of a decrease in trade and other receivables and inventories, offset by a decrease in trade and other payables.

Financing activities provided a net outflow of £17.2m (2012: £32.6m). This was as a result of repayments of shareholder loans due to reduced working capital requirements under the tolling arrangement and a smaller dividend payment to reflect the new working capital structure and repayment of Shareholder loans.

On behalf of the board



J V D Werff

Director

30 June 2014

Registered No. 2205902

Directors' report

The directors present their report and financial statements for the year ended 31 December 2013.

Results and dividends

The profit for the year after taxation amounted to £3.5m (2012 – loss of £1.5m). The directors proposed a final dividend of £4.0m in respect of the current financial year (2012 – £26.0m). The unusually high dividend payment in 2012 was declared due to a permanent reduction in the working capital, as a result of a change in business model to Tolling.

Financial instruments

Financial risk management objectives and policies and an indication of exposure to financial risk are detailed in note 19.

Going concern

The Directors have reviewed in detail both internal and external factors affecting the operation and the long-term viability of ERL and consider that it is appropriate to adopt the going concern basis of accounting.

Directors

The directors who served the company during the year were as follows:

R Childs - Resigned 31 March 2014

J P J Dubois

R S G Allgulander

S N Day

J V D Werff

A Bagnall - Resigned 12 December 2013

D Topliffe - Appointed 12 December 2013

K Sherlock - Appointed 21 February 2014

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditors.

On behalf of the Board



J V D Werff
Director

30 June 2014

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance;
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EASTHAM REFINERY LIMITED

We have audited the financial statements of Eastham Refinery Limited for the year ended 31 December 2013 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Directors Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- ▶ give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EASTHAM REFINERY
LIMITED (continued)**

Matters on which we are required to report by exception

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

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



Gary Harding (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester

25 July 2014

Income statement

for the year ended 31 December 2013

		2013	Restated 2012
	Notes	£000	£000
Revenue	2	24,234	399,285
Cost of sales		(18,674)	(399,432)
Gross profit / (loss)		5,560	(147)
Administrative expenses		(1,400)	(1,453)
Operating profit / (loss)	3	4,160	(1,600)
Finance income	6	633	645
Finance expenses	7	(880)	(1,210)
Net financing costs		(247)	(565)
Profit / (loss) on ordinary activities before taxation		3,913	(2,165)
Income tax (charge) / credit	8	(442)	712
Profit / (loss) for the financial year		3,471	(1,453)

All amounts relate to continuing activities.

Statement of comprehensive income

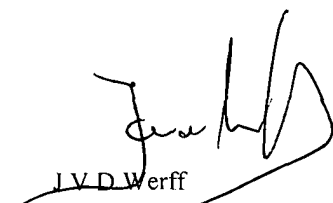
for the year ended 31 December 2013

	2013	Restated 2012
	£000	£000
Profit / (loss) for the financial year	3,471	(1,453)
Items that will not be reclassified to profit and loss		
Remeasurement gains / (losses)	547	(195)
Income tax effect	(115)	45
Total items that will not be reclassified to profit and loss	432	(150)
Total comprehensive income	3,903	(1,603)

Statement of financial position

at 31 December 2013

		2013	Restated 2012
	Notes	£000	£000
Non-current assets			
Property, plant and equipment	9	23,024	21,092
Current assets			
Inventories	11	5,348	6,787
Trade and other receivables	10	2,985	27,598
Cash and cash equivalents	12	-	-
Income tax receivable		-	422
		8,333	34,807
Total assets		31,357	55,899
Current liabilities			
Trade and other payables	14	(2,443)	(14,225)
Interest bearing loans and borrowings	13	(10,694)	(23,739)
Income tax payable		(387)	-
		(13,524)	(37,964)
Non-current liabilities			
Provisions	15	(325)	(221)
Employee benefit liability	16	(239)	(823)
Deferred tax liabilities	8(c)	(2,947)	(2,472)
		(3,511)	(3,516)
Total liabilities		(17,035)	(41,480)
Net assets		14,322	14,419
Share capital	18	10,000	10,000
Retained earnings		4,322	4,419
Total equity		14,322	14,419


 J V D Werff
 Director
 30 June 2014

Statement of changes in equity

for the year ended 31 December 2013

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Restated Total equity</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2012	10,000	32,022	42,022
Loss for the year	-	(1,453)	(1,453)
Other comprehensive income net of tax		(150)	(150)
Dividends	-	(26,000)	(26,000)
At 1 January 2013	10,000	4,419	14,419
Profit for the year	-	3,471	3,471
Other comprehensive income net of tax	-	432	432
Dividends	-	(4,000)	(4,000)
At 31 December 2013	10,000	4,322	14,322

Statement of cash flows

for the year ended 31 December 2013

	2013	Restated 2012
Notes	£000	£000
Operating activities		
Profit for the year	3,471	(1,453)
Adjustments to reconcile profit for the year to net cash		
Inflow from operating activities:		
Depreciation, amortisation and impairment	1,297	1,225
Loss on disposal of property, plant and equipment	75	17
Financial income	(633)	(645)
Financial expense	880	1,210
Remeasurement impact of IAS 19(R) adoption	-	(195)
Taxation	442	(712)
	<u>5,532</u>	<u>(553)</u>
Operating profit before changes in working capital and provisions		
Decrease in trade and other receivables	24,613	739
Decrease in inventories	1,439	34,583
Decrease in trade and other payables	(11,990)	2,841
Increase in provisions and employee benefits	269	(85)
	<u>19,863</u>	<u>37,526</u>
Cash generated from the operations		
Income tax paid / (received)	728	(1,295)
	<u>20,591</u>	<u>36,231</u>
Net cash inflow from operating activities		
Acquisition of property, plant and equipment	(3,324)	(4,023)
Net cash inflow from investing activities	<u>17,267</u>	<u>(4,023)</u>
Cash flows from financing activities		
Repayment of borrowings	(19,000)	(25,000)
Proceeds from new loan	6,000	19,000
Interest paid	(222)	(551)
Dividends paid	(4,000)	(26,000)
	<u>(17,222)</u>	<u>(32,551)</u>
Net cash outflow from financing activities		
Net increase / (decrease) in cash and cash equivalents	45	(343)
Cash and cash equivalent at 1 January	(4,739)	(4,396)
Cash and cash equivalents at 31 December	<u>12 (4,694)</u>	<u>(4,739)</u>

Notes to the financial statements

at 31 December 2013

1. General information

The financial statements of Eastham Refinery Limited for the year ended 31 December 2013 were authorised for issue by the board of directors on 30 June 2014 and the Statement of Financial Position was signed on the board's behalf by J V D Werff. Eastham Refinery Limited is a company incorporated and domiciled in England and Wales.

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provision of the Companies Act 2006. The principal accounting policies adopted by the company are set out in note 2.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

2. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Changes to International Financial Reporting Standards

Interpretations and standards which became effective during the year

The following accounting standards and interpretations, that are relevant to the company, became effective during this period:

- IAS 1 – Presentation of financial statements (amendment)
- IFRS13 – Fair Value Measurement
- IAS 19 (R) – Employee Benefits (amended)

The amendments to IAS 1 require items presented within other comprehensive income to be grouped based on the potential for subsequent reclassification to profit and loss i.e. those that will be reclassified and those that will not be. As a result of adopting this amendment, the company has made changes to the presentation of these items within the statement of comprehensive income.

The company has adopted IFRS 13 Fair Value Measurement which is effective for periods commencing on or after 1 January 2013. The standard establishes a single framework for measuring fair value and making disclosures about fair value measurement, where its use is already required or permitted by other standards within IFRS. Adopting this standard has not had a material impact upon the company's financial performance or position.

As a result of IAS 19 (R), the company has changed its accounting policy with respect to the basis for determining the income or expense relating to the net pension liability. The revision requires all remeasurement gains and losses to be recognised immediately within the statement of comprehensive income and also replaced the expected return on assets and interest costs on the defined benefit obligation with a single interest component, based on the discount rate. Any plan amendments will be recognised in full in the period of amendment. There are also a number of enhanced presentation and disclosure requirements. The impact of the change in policy on the current year defined benefit obligation is immaterial and the full impact on the prior period is shown within the accounting policy in relation to employee benefits.

Interpretations and standards which have been issued and are not yet effective

New standards, amendments and interpretations to existing standards have been issued but are not yet effective and have not been early adopted by the company.

Notes to the financial statements

at 31 December 2013

2. Accounting policies (*continued*)

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the company's accounting period beginning on or after 1 January 2014. The company has elected not to early adopt these standards which are described below.

- Amendment to IAS 32 – Offsetting Financial Assets and Financial Liabilities
- IFRS 9 – Financial Instruments (issued in 2010)
- Amendments to IFRS 7 and IFRS 9 – Mandatory Effective Date and Transition Disclosures
- Amendments to IFRS 10, IFRS 12, IAS 27 – Investment Entities

The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the company's financial statements in the period of initial application.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates. Key sources of estimation uncertainty and critical accounting judgements are as follows:

Revenue recognition

Revenue is recognised when processing costs and processing fees are recharged to each Shareholder. The amount of revenue is measured reliably as all fixed and variable costs plus an agreed percentage of working capital employed. In prior years the Company's revenue consisted of sales of products manufactured from the processing of hydrocarbon feedstocks.

Deferred taxation

Deferred tax assets relating to tax loss carry-forwards and temporary differences are recognised in those cases when future taxable income is expected to permit the recovery of those tax assets. Changes in assumptions in the projections of future taxable income as well as changes in tax rates could result in significant differences in the valuation of deferred taxes.

Pensions

The actuarial valuation involved making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

Foreign currencies

Transactions in foreign currencies are translated 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 translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. 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 translated at foreign exchange rates ruling at the dates the fair value was determined.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Notes to the financial statements

at 31 December 2013

2. Accounting policies (*continued*)

Property, plant and equipment (continued)

The remaining life of the refinery complex is reassessed by the directors every five years. Following each such reassessment the net book value of the assets at that date is depreciated over the remaining useful economic life on a straight-line basis. Subsequent additions are depreciated over the reassessed remaining useful economic life of the refinery complex. The last revision of the remaining life of the refinery was performed as at 1 January 2013 when the directors reassessed their estimate of the remaining useful economic life of these assets at twenty years from that date.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	–	20 years
Plant	–	20 years
Equipment	–	5 years
Vehicles	–	4 years

Assets in the course of construction are not depreciated.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Trade and other receivables

Trade and other receivables are stated at their nominal amount less impairment losses.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Cash and cash equivalents

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

Impairment

The carrying amounts of the company's assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. Impairment losses are recognised in the income statement.

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 with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Notes to the financial statements

at 31 December 2013

2. Accounting policies (*continued*)

Employee benefits

Defined benefit plans

The company's net obligation in respect of its defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Statement of comprehensive income over the average period until the benefits become vested.

All remeasurement gains and losses as at 1 January 2005, the date of transition to adopted IFRSs, were recognised.

IAS 19 (R) – Employee Benefits (Revised)

The revision to IAS 19(R) which is applicable for years beginning on or after 1 January 2013 eliminates the corridor approach and requires recognition of all remeasurement gains and losses in the statement of comprehensive income immediately. The revision also replaces the expected return on assets and interest costs on the defined benefit obligation with a single interest component, based on the discount rate. Past service costs will be recognised in full in the period of the related plan amendment. The revision to IAS 19(R) also changes the requirements for termination benefits and include enhanced presentation and disclosure requirements. The impact of adopting this revision is as follows:

<i>Impact on the income statement and statement of other comprehensive income:</i>	Impact of IAS 19 (R) (£000)
<i>Income Statement</i>	
Decrease cost of sales	195
Decrease interest Income	(103)
<i>Loss from continuing operations before tax</i>	92
Tax	(17)
<i>Loss for the financial year</i>	75
<i>Statement of Comprehensive Income</i>	
Remeasurement losses in respect of the defined benefit scheme	(195)
Taxation	45
<i>Other Comprehensive Income for the year net of tax</i>	(150)
<i>Impact on the Statement of Financial Position:</i>	
As report at 31 December 2012	(748)
Impact of IAS 19 (R)	(75)
<i>Balance as restated as at 31 December 2012</i>	(823)

Notes to the financial statements

at 31 December 2013

2. Accounting policies (*continued*)

Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Net financing costs

Net financing costs comprise interest payable and interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

3. Operating profit

This is stated after charging/(crediting):

	2013	2012
	£000	£000
Auditors' remuneration:		
Amounts receivable by the auditors in respect of:		
Audit of these financial statements	19	18
Loss on disposal of property, plant and equipment	75	17
Depreciation of property, plant and equipment	1,099	1,174
Operating lease payments	135	124

Notes to the financial statements

at 31 December 2013

4. Directors' remuneration

None of the directors received any remuneration during the year (2012 – £nil). The directors are employed and remunerated by Nynas UK AB, Nynas AB, Shell International Petroleum Co Ltd, Shell UK Oil Products Ltd and Shell Downstream Services International BV.

5. Staff costs

	2013	2012
	£000	£000
Wages and salaries	2,292	2,180
Social security costs	213	197
Other pension costs	577	509
	<u>3,082</u>	<u>2,886</u>

The average monthly number of employees during the year was made up as follows:

	2013	2012
	No.	No.
Production	46	44
Administration	1	1
	<u>47</u>	<u>45</u>

6. Finance income

	2013	Restated 2012
	£000	£000
Expected return on defined benefit pension plan assets	<u>633</u>	<u>645</u>

7. Finance expense

	2013	2012
	£000	£000
Interest expense – bank loan and overdraft	(61)	(114)
Interest expense – related parties	(166)	(433)
Interest on defined benefit pension plan obligation	(653)	(663)
	<u>(880)</u>	<u>(1,210)</u>

The interest expense payable to related parties relates to amounts loaned in equal proportions by Nynas Limited and Shell Petroleum Company Limited.

Notes to the financial statements

at 31 December 2013

8. Income tax

(a) Income tax on profit / (loss) on ordinary activities

Income tax charged / (credited) in the income statement

	2013	Restated 2012
	£000	£000
Current tax:		
UK corporation tax – continuing operations	812	-
Amounts (over) / under provided in previous years	(730)	10
Total current income tax	82	10
Deferred tax:		
Origination / reversal of timing difference	360	(97)
Recognised tax losses	-	(625)
Income tax charge / (credit) in the income statement	442	(712)

(b) Reconciliation of the total income tax charged / (credited)

The income tax expense in the income statement for the year differs from the standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%). The differences are reconciled below:

	2013	Restated 2012
	£000	£000
Accounting profit/(loss) before taxation	3,913	(2,165)
Accounting profit/(loss) before taxation multiplied by standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%)	910	(530)
Effects of:		
Taxable income	(98)	(113)
Other adjustments	360	(120)
Tax losses	-	41
Amounts (over) / under provided in previous years	(730)	10
Income tax charge/(credit) in the income statement	442	(712)

Notes to the financial statements

at 31 December 2013

8. Income tax (continued)

(c) Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2013 £000	2012 £000
Property, plant and equipment	(3,065)	(3,268)
Employee benefits	50	171
Tank provision	68	-
Tax losses carried forward net tax liability	-	625
	<u>(2,947)</u>	<u>(2,472)</u>

Movement in deferred tax during the year:

	<i>At 1 January 2013 £000</i>	<i>Recognised in income £000</i>	<i>At 31 December 2013 £000</i>
Property, plant and equipment	(3,268)	203	(3,065)
Employee benefits	171	(121)	50
Tank provision	-	68	68
Recognised tax losses	625	(625)	-
	<u>(2,472)</u>	<u>(475)</u>	<u>(2,947)</u>

(d) Factors that may affect future tax charges

In his Budget of March 2013, the Chancellor of the Exchequer announced a reduction of the corporation tax rate to 21% from 1 April 2014 and 20% from 1 April 2015.

These rates were enacted in July 2013 and are reflected in the above financial statements.

The rate changes will also impact the amount of future cash tax payments to be made by the Company.

Notes to the financial statements

at 31 December 2013

9. Property, plant and equipment

	<i>Land and buildings £000</i>	<i>Plant, equipment and vehicles £000</i>	<i>Under construction £000</i>	<i>Total £000</i>
Cost or valuation:				
At 1 January 2012	500	45,422	30	45,952
Additions	-	(39)	4,087	4,048
Transfers	-	1,265	(1,265)	-
Disposals	-	(68)	-	(68)
At 1 January 2013	500	46,580	2,852	49,932
Additions	-	-	3,304	3,304
Transfers	-	5,726	(5,726)	-
Disposals	-	(273)	-	(273)
At 31 December 2013	500	52,033	430	52,963
Depreciation:				
At 1 January 2012	387	27,279	-	27,666
Depreciation charge for the year	7	1,218	-	1,225
Disposals	-	(51)	-	(51)
At 1 January 2013	394	28,446	-	28,840
Depreciation charge for the year	7	1,290	-	1,297
Disposals	-	(198)	-	(198)
At 31 December 2013	401	29,538	-	29,939
Net book value:				
At 31 December 2013	99	22,495	430	23,024
At 1 January 2013	106	18,134	2,852	21,092

Security

No assets are pledged as security.

Property, plant and equipment under construction

At 31 December 2013 assets in the course of construction comprised plant and equipment of £429,650 (2012 – £2,852,000).

10. Trade and other receivables

	<i>2013 £000</i>	<i>2012 £000</i>
Trade receivables due from related parties	2,355	27,240
Other trade receivables and prepayments	630	358
	<u>2,985</u>	<u>27,598</u>

Included in trade and other receivables is £nil (2012 – £nil) expected to be recovered in more than 12 months. No amounts are past due or impaired.

Notes to the financial statements

at 31 December 2013

11. Inventories

	2013 £000	2012 £000
Raw materials and consumables	4,839	5,607
Finished goods	509	1,180
	<u>5,348</u>	<u>6,787</u>

Included within inventories is £4,839,000 (2012 – £4,651,000) expected to be recovered in more than 12 months.

Inventories to the value of £nil were recognised as expenses in the year (2012 – £393,467,918).

12. Cash and cash equivalents/bank overdrafts

	2013 £000	2012 £000
Cash and cash equivalents per statement of financial position		
Bank overdrafts	-	-
Cash and cash equivalents per statement of cash flows	<u>(4,694)</u>	<u>(4,739)</u>
	<u>(4,694)</u>	<u>(4,739)</u>

13. Borrowings

This note provides information about the contractual terms of the company's interest-bearing loans and borrowings. For more information about the company's exposure to interest rate and foreign currency risk, note 19.

	2013 £000	2012 £000
Current liabilities		
Bank overdraft	4,694	4,739
Loan from external third party	-	3,000
Loan from jointly controlled entity parents	6,000	16,000
	<u>10,694</u>	<u>23,739</u>

Terms and debt repayment Schedule

The loan from the two parents of this jointly controlled entity consists of equal loans of £3m from Nynas Limited and Shell Petroleum Company Limited respectively (2012 – £8m) bearing the same interest rate of LIBOR plus 2.14%. Both loans will be repaid on 20 March 2014. There are no external third party loan from HSBC plc in the current year and hence no interest rate applicable (2012 – £3m and 1.22%).

Notes to the financial statements

at 31 December 2013

14. Trade and other payables

	2013 £000	2012 £000
Trade payables due to related parties	265	1,440
Other trade payables	315	2,046
Non-trade payables and accrued expenses	1,863	10,739
	<u>2,443</u>	<u>14,225</u>

15. Provisions

	£000
At 1 January 2013	221
Arising during the year	104
At 31 December 2013	<u>325</u>
Analysed as:	
Current	325
Non-current	<u>325</u>

A provision is recognised in respect of contracted tank repair costs on a discounted basis, applying a discount rate of 2.410% (2012 – 2.53%). It is expected that this cash outflow will arise in 2025.

16. Employee benefits

Pension plans

The company operates a pension scheme providing benefits based on final pensionable pay. The latest full actuarial valuation was carried out at 31 March 2011 (2011 Valuation).

(a) Summary

The information disclosed below is in respect of the plan for which the company is the sponsoring employer.

	2013 £000	Restated 2012 £000
Present value of funded defined benefit obligations	(16,659)	(15,128)
Fair value of plan assets	16,420	14,305
Net obligations	<u>(239)</u>	<u>(823)</u>
Recognised liability for defined benefit obligations	<u>(239)</u>	<u>(823)</u>
Employee benefits deficit	<u>(239)</u>	<u>(823)</u>

Notes to the financial statements

at 31 December 2013

16. Employee benefits (continued)

Movements in present value of defined benefit obligation

	2013	2012
	£000	£000
At 1 January	(15,128)	(13,595)
Current service cost	(577)	(509)
Interest cost	(653)	(663)
Remeasurement (gain) / loss - experience	21	(89)
Remeasurement (gain) – financial assumptions	(756)	(718)
Benefits paid	540	544
Contributions by members	(106)	(98)
At 31 December	<u>(16,659)</u>	<u>(15,128)</u>

Movement in fair value of plan assets

	2013	Restated 2012
	£000	£000
At 1 January	14,305	12,900
Expected return on plan assets	633	645
Remeasurement gain	1,283	612
Contributions by employer	633	594
Contributions by members	106	98
Benefits paid	(540)	(544)
At 31 December	<u>16,420</u>	<u>14,305</u>

(b) Expense recognised in the income statement

	2013	Restated 2012
	£000	£000
Current service cost	577	509
Interest on defined benefit pension plan obligation	653	663
Return on defined benefit pension plan assets	(633)	(645)
	<u>597</u>	<u>527</u>

The expense is recognised in the following line items in the income statement:

	2013	Restated 2012
	£000	£000
Cost of sales	(577)	(509)
Finance income	633	645
Finance expense	(653)	(663)
	<u>(597)</u>	<u>(527)</u>

Notes to the financial statements

at 31 December 2013

16. Employee benefits (continued)

(c) The fair value of the plan assets and the return on those assets

The fair value of the plan assets and the return on those assets were as follows:

	<i>Expected rate of return</i>		<i>Fair value</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
	<i>%</i>	<i>%</i>	<i>£000</i>	<i>£000</i>
UK Equities	6.30	6.60	6,538	5,448
Overseas Equities	6.30	6.60	4,407	3,971
Gilts	3.30	3.30	3,614	3,183
Corporate bonds	3.30	3.30	1,811	1,636
Other	2.90	2.70	50	67
			<u>16,420</u>	<u>14,305</u>
Return on plan assets			<u>(1,283)</u>	<u>(1,257)</u>

The actual rate of return on plan assets was 7.81% (2012 – 8.79%). The expected rates of return on plan assets are determined by reference to relevant indices. The overall rate of return is calculated by a single interest component, based on the discount rate

Principal actuarial assumptions (expressed as weighted averages)

	<i>2013</i>	<i>2012</i>
	<i>%</i>	<i>%</i>
Discount rate	4.35	4.40
Future salary increases	3.35	2.95
Price inflation	3.10	2.95
Post retirement mortality for pensioners at 65:		
– Male	21.5	21.2
– Female	<u>23.6</u>	<u>23.4</u>

(d) History of experience gains and losses

The history of the plans for the current and prior periods is as follows:

	<i>2013</i>	<i>Restated 2012</i>
	<i>£000</i>	<i>£000</i>
Present value of defined benefit obligation	(16,659)	(15,128)
Fair value of plan assets	<u>16,420</u>	<u>14,305</u>
Pension Deficit	<u>(239)</u>	<u>(823)</u>

Notes to the financial statements

at 31 December 2013

16. Employee benefits (continued)

Experience adjustments

	2013 £000	2012 £000
Experience adjustments on plan liabilities (£000)	(653)	(663)
Percentage of defined benefit obligation (%)	3.92%	4.4%
Experience adjustments on plan assets (£000)	(1,283)	(509)
Percentage of scheme assets (%)	<u>(7.81)%</u>	<u>(3.55)%</u>

The company expects to contribute approximately £658,735 to its defined benefit plan in the next financial year.

(e) Maturity profile of Defined Benefit Obligation

	£000
Expected benefit payments during fiscal year ending 31 December 2014	557
Expected benefit payments during fiscal year ending 31 December 2015	575
Expected benefit payments during fiscal year ending 31 December 2016	592
Expected benefit payments during fiscal year ending 31 December 2017	611
Expected benefit payments during fiscal year ending 31 December 2018	630
Expected benefit payments during fiscal year ending 31 December 2019 through 31 December 2023	<u>4,083</u>

The weighted average duration of the defined benefit obligation is 17 years.

(f) Sensitivity analysis

Assumption	Change in assumption	Impact on plan liabilities
Discount rate	Increase / decrease by 0.5% per annum	Increase / decrease by 8%
Life expectancy	Increase by one year	Increase by 3%

17. Obligations under finance leases and hire purchase contracts

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2013 £000	2012 £000
Within one year	146	124
In one and five years	584	496
Over five years	6,716	5,828
	<u>7,446</u>	<u>6,448</u>

During the year, £135,000 was recognised as an expense in the income statement in respect of operating leases (2012 – £124,000).

18. Issued share capital

	No.	2013 £000	No.	2012 £000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	10,000,000	<u>10,000</u>	10,000,000	<u>10,000</u>

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

19. Financial instruments

Interest rate risk

The company pays interest on loans and overdraft facilities. Loans are available from both the parent companies and the Bank. Bank interest is payable at 1% over base rate. Interest on loans from the related parties is payable at 2.14% over LIBOR.

Effective interest rates and re-pricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are re-priced.

	Effective interest rate %	Total £000	2013 0 to < 1 years £000	Effective interest rate %	Total £000	2012 0 to < 1 years £000
Cash and cash equivalents		-	-		-	-
Bank overdrafts	1.50	(4,694)	(4,694)	1.50	(4,739)	(4,739)
Loans from jointly controlled entity parents	2.64	(6,000)	(6,000)	1.80	(16,000)	(16,000)
External Bank Loan		-	-	1.22	(3,000)	(3,000)
		<u>(10,694)</u>	<u>(10,694)</u>		<u>(23,739)</u>	<u>(23,739)</u>

Notes to the financial statements

at 31 December 2013

20. Financial instruments (continued)

Credit risk

The company has limited exposure to credit risk as all sales are to related parties. All financial statements receivables are current, there is no bad debt provision and there are no amounts past due that require impairment (2012 – £nil).

Foreign currency risk

With the move to tolling the FX risk is less material given the reduction in FX transactions in the future.

Exposure to currency risk

The company's exposure to foreign currency risk was as follows based on notional amounts:

	2013 \$000	2012 \$000
Trade payables	390	2,222
Gross balance sheet exposure	390	2,222

Sensitivity analysis

In managing interest rate and currency risks the company aims to reduce the impact of short-term fluctuations on the company's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on earnings.

At 31 December 2013, it is estimated that a general increase of 1% percentage point in interest rates would decrease the company's profit before tax by approximately £76,428 (2012 – £291,000).

It is estimated that a general increase of 1% percentage point in the value of the US Dollar against other foreign currencies would have decreased the company's profit before tax by approximately £213,000 for the year ended 31 December 2013 (2012 – £458,000).

Liquidity risk

The company monitors cash flow requirements on a daily basis and ensures it has sufficient cash to meet expected expenses by facilitating loans from both its parent companies and the bank. In extreme circumstances that cannot be predicted financial arrangements from the parent companies can be reviewed.

The company maintains the following lines of credit:

- (a) £5 million overdraft facility. Interest payable at 1% over base rate.
- (b) \$4.8 million USD/Money market facility which can be used to meet short-term financing needs.
- (c) £3 million parent loan facility from both Nynas Limited and Shell UK Limited.

The following loans were outstanding as of 31 December 2013:

Nynas Limited	–	£3 million
Shell UK Limited	–	£3 million

All of these loans were repaid in March 2014 and then reissued until March 2016.

The HSBC overdraft is payable on demand.

Fair values

The fair values of the company's cash, overdraft, and loans equate to their respective book values.

Notes to the financial statements

at 31 December 2013

19. Financial instruments (continued)

Capital management

The company has two shareholders only and therefore is not subject to externally imposed capital requirements.

20. Capital commitments

During the year ended 31 December 2013, the company entered into a contract to purchase property, plant and equipment for £5,000 (2012 – £25,000).

21. Related parties

Identity of related parties

The company is a jointly controlled entity whose shares are owned equally by Shell UK Limited (Shell) and Nynas Limited. Nynas Limited is a wholly owned subsidiary of Nynas AB (Nynas).

The company recharges fixed and variable costs plus an average cost of capital to Shell UK Limited and Nynas UK AB, a subsidiary of Nynas. Amounts included under trade receivables due from related parties are due entirely from these two parties. The company buys limited raw materials from Nynas UK AB and Shell UK Ltd. The majority of the raw materials processed within the refinery are owned by Nynas UK AB and Shell UK Limited.

Transactions with key management personnel

The company's key management personnel are the directors and the General Manager. The directors did not receive any remuneration from the company in either the current or preceding year.

The company paid £168,195 (2012 – £163,104) to Nynas UK AB in respect of the services performed by the General Manager.

21. Related parties (continued)

Other related party transactions

	<i>Sales to shell</i>	<i>Sales to Nynas UKAB</i>	<i>Purchases from Nynas AB</i>	<i>Purchase from Shell</i>	<i>Balance due from Shell</i>	<i>Balance due from Nynas UKAB</i>	<i>Balance due to Shell</i>	<i>Balance due to Nynas AB</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
2013	12,031	12,203	265	558	1,045	1,310	236	29
2012	196,353	202,933	259,493	54,562	11,207	16,033	1,412	28

The loans from the two parents of this jointly controlled entity consist of equal loans of £3m from Nynas Limited and Shell Petroleum Company Limited and remain payable as at 31 December 2013.

During the year the company paid total management fees to Nynas UK AB of £265,395 (2012 – £257,000) in respect of management and administrative services provided by that related party.

22. Ultimate parent undertaking and controlling party

The company is a jointly controlled entity whose shares are owned equally by Shell UK Limited and Nynas Limited. Consequently, neither party is regarded as the controlling party.

The principal place of business is North Road, Ellesmere Port, CH65 1AJ.