

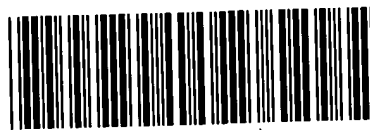
INEOS Upstream Limited

Annual report and financial statements

Registered number 9121775

31 December 2017

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Strategic report

The directors present their strategic report on the Company for the year ended 31 December 2017.

Review of business and future developments

The present focus is on two sites, both operated by our JV partner IGas. The first of these is at Springs Road in the parish of Misson, North Northamptonshire, where planning permission to drill two exploratory wells was granted in November 2016. The Company holds a 40% working interest in these operations. In May 2017 Nottinghamshire County Council also issued consent to drill a single well along with accompanying ground water monitoring boreholes at Tinker Lane. The company holds a 45% working interest in these operations. Site construction at both locations is currently underway, with the first well due to spud later in 2018.

In Q2 2017, the Company launched a 3D seismic survey across a 250km² area of the East Midlands basin, this survey finished at the end of January 2018 with 232km² (93%) successfully completed; results are currently being processed.

As at the end of 2017 three full planning applications for vertical exploratory core wells on INEOS owned licences had been submitted; one of these was submitted to Derbyshire County Council and a further two were submitted to Rotherham Metropolitan Borough Council. The first of these applications (Harthill site) was rejected in January 2018 by Rotherham Metropolitan Borough Council Planning Committee on highways and ecology grounds. A further one (Bramley Moor site) was rejected in February 2018 by the Derbyshire County Council Planning Committee on the grounds of green belt, noise and traffic impacts. The third one (Woodsetts site) was rejected by Rotherham Metropolitan Borough Council Planning Committee in March 2018 on the grounds that supporting ecological information provided with the application was deficient to determine the application and on highways grounds. Harthill site and Bramley Moor site planning applications have been referred by INEOS Upstream Limited to the Planning Inspectorate for appeal, a decision on Woodsetts site is still to be made. On 7 October 2016, the Company signed an agreement with Engie E&P UK Limited to acquire its entire portfolio of onshore UK licence interests. This acquisition completed in March 2017, with an effective date of 1 September 2016.

On 7 October 2016 the company signed an agreement with Total E&P UK Limited to acquire a substantial portion of its portfolio of onshore licence interests. This acquisition completed on 1 November 2017, with an economic date of 1 July 2017.

On 1 November 2017 INEOS Upstream Limited transferred its ownership of INEOS Offshore BCS Limited to INEOS Upstream Holdings Limited. On 1 November 2017 the loan receivable and the loan payable between INEOS Upstream Limited and INEOS Industries Holdings Limited were novated to INEOS Upstream Holdings Limited.

Results and dividends

The loss on ordinary activities before taxation was £10,659,124 (2016: loss of £12,155,379). The directors do not propose the payment of a dividend (2016: £ nil).

Strategy

The strategic aim of the Company is to explore for hydrocarbons in the UK and generally help promote and develop the safe extraction of unconventional gas in the UK. The Company aspires to quickly but deliberately explore onshore opportunities in the UK and rapidly develop producing assets where that exploration is successful. The Company also continues to look for opportunities for acquisition of further licences in the UK, using experienced resources to evaluate the areas which show greatest potential for the extraction of hydrocarbons. The Company also continues to incur costs relating to potential offshore acquisitions.

Strategic report (continued)

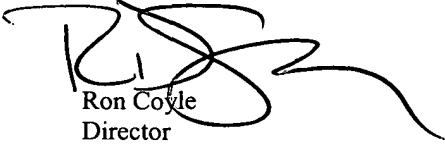
Key performance indicators (KPIs)

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. The development, performance and position of INEOS Industries Limited which includes the Company, are discussed in INEOS Industries Limited's annual report which does not form part of this report.

Principal risks and uncertainties

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

Approved and signed on behalf of the board



Ron Coyle
Director

8 June 2018

Directors' report

The directors present their report and audited financial statements of the Company for the year ended 31 December 2017.

Principal activities

The principal activity of INEOS Upstream Limited is the exploration and evaluation of land leading to development and ultimately production of shale gas.

Directors

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

G Beamish

J F Ginns

G R Haywood – resigned 31 March 2017

T Pickering

A Bowden

G Tuft – appointed 10 January 2017

L Calder – appointed 23 January 2017

R Coyle – appointed 1 September 2017

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company where appropriate. The Company is funded internally by the INEOS group and therefore has no direct exposure to liquidity or debt market risk. Interest rate exposures are managed on a group basis and are fully disclosed in the consolidated financial statements of INEOS Industries Limited.

Results and dividends

Results and dividends are discussed in the strategic report.

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the parent company INEOS Industries Limited. The directors have received confirmation that INEOS Industries Limited intends to support the Company for at least one year after these financial statements are signed.

Health & safety

The Company has complied with all HSE laws, regulations and guidelines for the year ended 31 December 2017. The business has also gained external accreditation in ISO 9001/14001 and OHSAS 18001 business management systems during the year. During the year ended 31 December 2017 the Company carried out a six month 3D Seismic acquisition project in the East Midlands covering 250km² of land. This project created a significant increase in the working hours and exposure to risk but despite this all HSE requirements were successfully met with no reportable accidents or incidents. The Company continues to improve HSE performance and foster a culture of zero harm and continuous improvement. The Company has also carried out a several internal and external HSE audits throughout the year.

Directors' report (continued)

Future developments

Future developments are discussed in the strategic report.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

Disclosure of information to auditors

The directors confirm that as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that they have taken all steps necessary as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP are deemed to be reappointed in accordance with an elective resolution made under section 487 of the Companies Act 2006.

Approved and signed on behalf of the board

Ron Coyle
Director



8 June 2018
Registered number 9121775
Hawkslease, Chapel Lane, Lyndhurst, Hampshire, SO43 7FG

Independent auditors' report to the members of INEOS Upstream Limited

Report on the audit of the financial statements

Opinion

In our opinion, INEOS Upstream Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2017; the Profit and Loss Account, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report to the members of INEOS Upstream Limited (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report to the members of INEOS Upstream Limited (continued)

Use of this report

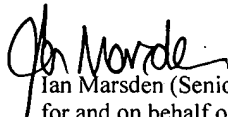
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
8 June 2018

Profit and Loss Account
for year ended 31 December 2017

	<i>Note</i>	Year ended 2017 £000	Year ended 2016 £000
Administrative expenses		(6,257)	(8,804)
Operating loss	2	(6,257)	(8,804)
Interest receivable and similar income	5	25,086	30,342
Interest payable and similar expenses	6	(29,488)	(33,693)
Loss before taxation		(10,659)	(12,155)
Tax on loss	7	-	-
Loss for the financial year		(10,659)	(12,155)

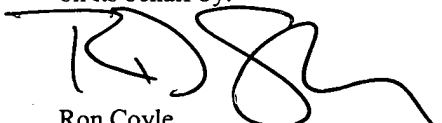
All activities of the Company relate to continuing operations.

The Company has no other comprehensive income and therefore no separate statement of comprehensive income has been presented.

Balance Sheet
At 31 December 2017

	2017 £000	2016 £000
Fixed assets		
Intangibles assets	84,562	48,411
Tangible assets	150	155
Investments	92	92
	84,804	48,658
Current assets		
Debtors (including £161,322 (2016: £449,897,000) due after more than one year)	2,552	451,508
Cash at bank and in hand	12,627	3,399
	15,179	454,907
Creditors: amounts falling due within one year	(13,776)	(4,706)
Net current assets	1,403	450,201
Total assets less current liabilities	86,207	498,859
Creditors: amounts falling due after more than one year	(124,569)	(526,562)
Net liabilities	(38,362)	(27,703)
Capital and reserves		
Called up share capital	-	-
Profit and loss account	(38,362)	(27,703)
Total equity	(38,362)	(27,703)

These financial statements on pages 8 to 24 were approved by the board of directors on 8 June 2018 and were signed on its behalf by:


Ron Coyle
Director

Company registered number: 9121775

Statement of Changes in Equity
for year ended 31 December 2017

	Called up Share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2016	-	(15,548)	(15,548)
Loss for the financial year	-	(12,155)	(12,155)
Balance at 31 December 2016	-	(27,703)	(27,703)

	Called up Share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2017	-	(27,703)	(27,703)
Loss for the financial year	-	(10,659)	(10,659)
Balance at 31 December 2017	-	(38,362)	(38,362)

Notes (forming part of the financial statements)

1 Accounting policies

INEOS Upstream Limited (the “Company”) is a private company, limited by shares, incorporated, registered and domiciled in England, UK. The registered office address is Hawkslease, Chapel Lane, Lyndhurst, Hampshire, SO43 7FG.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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

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

INEOS Industries Limited is the parent undertaking that includes the Company in its consolidated financial statements. The consolidated financial statements of INEOS Industries Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Hawkslease, Chapel Lane, Lyndhurst, Hampshire, SO43 7FG.

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

- a Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs and;
- Disclosures in respect of the compensation of Key Management Personnel.

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

- IFRS 2 *Share Based Payments* in respect of group settled share based payments;
- Certain disclosures required by 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 on the going concern basis, to all periods presented in these financial statements and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The Company meets its day-to-day working capital requirements through its intercompany loan facility. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources available to continue in operational existence for the foreseeable future as INEOS Industries Limited has confirmed that it intends to support the Company for at least one year after these financial statements are signed. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

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

1 Accounting policies (continued)

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Non-derivative financial instruments

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

Trade and other debtors

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

Trade and other creditors

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

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 Investments in subsidiaries

Investments are stated in the balance sheet at cost less any provisions for impairment.

1.6 Tangible fixed assets

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

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

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

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

- plant and equipment 5-20 years

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

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

1 Accounting policies (continued)

1.7 Joint arrangements

A proportion of the Company's licence interest are held jointly with others and are operated in accordance with Joint Operation Agreements. Accordingly, the Company accounts for its share of assets, liabilities, income and expenditure of these joint operations, classified in the appropriate balance sheet and profit and loss headings, except where its share of such amounts remain the responsibility of another party in accordance with the terms of carried interest. Where the Company enters into a farm-in agreement involving a licence in the exploration and evaluation phase, the Company records all costs that it incurs under the terms of the joint operating agreement as amended by the farm-in agreement as they are incurred.

When the Company, acting as an operator or manager of a joint arrangement, receives reimbursement of direct costs recharged to the joint arrangement, such recharges represent reimbursements of costs that the operator incurred as an agent from the joint arrangement and therefore have no effect on profit or loss.

1.8 Intangible assets

Exploration and Evaluation expenditure

Pre-licence costs incurred prior to acquiring the legal rights (or a share of the legal rights) to explore an area are expensed to the profit and loss account as they are incurred and are not subsequently capitalised.

Costs incurred to acquire the legal rights (or a share of the legal rights) to explore an area are capitalised as an intangible asset.

Costs directly associated with an exploration site are initially capitalised as an intangible asset until the evaluation of the site is complete and the results have been evaluated. These costs include topographical, geological, geophysical and geochemical studies, civil costs, exploratory drilling and testing, sampling, trenching, contractor charges, materials and fuels used, manpower and associated overheads. In the case that the expenditure will not be immediately allocated to a site, it will be capitalised against the wider licensed region and then subsequently allocated to the site using an appropriate method of apportionment. Tangible assets are initially capitalised as property, plant and equipment and these include drilling rigs, seismic equipment and other plant and machinery used in the exploration activity.

Amortisation

When a well on a site reaches commercial production then further capitalisation of Exploration and Evaluation expenditure for the site stops and the costs associated with the site begin to be amortised over the anticipated life of the associated shale gas reserves.

Impairment of Exploration and Evaluation expenditure

Exploration and Evaluation expenditure is tested for impairment whenever circumstances suggest that it may be impaired, which includes licences to be relinquished, no substantive plans for further exploration of an area or where there is indication that exploration costs are unlikely to be fully recovered through future development or sale.

1.9 Stocks

Stocks are stated at the lower of average cost and net realisable value. Cost includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

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

1 Accounting policies (continued)

1.10 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

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

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

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

1 Accounting policies (continued)

1.11 Provisions

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

Decommissioning and restoration provisions

The Company does not make full provision for the future costs of plugging and abandoning wells during the Exploration and Evaluation stage. If a decision is made to plug and abandon a well during this phase then the costs are expensed as the well is abandoned. Once activities move into the production phase then a provision will be made once a well starts to produce. This provision will cover the costs of cementing and plugging the well and returning the site to its original use.

1.12 Turnover

Turnover represents the invoiced value of products sold to third parties net of value added tax and sales taxes. Sales are recognised when significant risks and rewards of ownership have passed to the buyer and sales can be reliably measured. This is either when goods are dispatched or delivered depending on the relevant delivery terms, when the prices are determined or when collectability is considered probable.

1.13 Expenses

Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense. If a lease can be directly attributed to a site or PEDL then the payments will be capitalised as Exploration and Evaluation expenditure and held on the balance sheet until amortised or impaired.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable includes interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

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

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

1 Accounting policies (continued)

1.14 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

2 Operating loss

Auditors' remuneration:

	Year ended 2017 £000	Year ended 2016 £000
Audit of these financial statements	24	20

3 Staff numbers and costs

There were no employees with contracts of employment in the name of the company during the year (2016: none).

4 Directors' remuneration

None of the Directors received any fees or remuneration for services as a director of the company during the financial year (2016: none).

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

5 Interest receivable and similar income

	Year ended 2017 £000	Year ended 2016 £000
Total interest receivable and similar income	25,086	30,342

Interest receivable and similar income relates solely to interest receivable from group undertakings.

6 Interest payable and similar expenses

	Year ended 2017 £000	Year ended 2016 £000
Total other interest payable and similar charges	29,488	33,693

Interest payable and similar charges relates solely to interest payable to group undertakings.

7 Tax on loss

Recognised in the profit and loss account

	Year ended 2017		Year ended 2016	
	£000	£000	£000	£000
<i>UK corporation tax</i>				
Current tax on loss for the year	-		-	
	<hr/>		<hr/>	
Tax on loss		-		-
		<hr/> <hr/>		<hr/> <hr/>

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

7 Tax on loss (continued)

Reconciliation of effective tax rate

	Year ended 2017 £000	Year ended 2016 £000
Total tax expense	-	-
Loss before taxation	(10,659)	(12,155)
Loss before taxation multiplied by the average rate of tax in the UK of 40% (2016: 40%)	(4,264)	(4,862)
Expenses not deductible for tax purposes	1,758	2,693
Deferred tax not recognised	2,505	2,169
Total tax expense	-	-

The Company had not commenced trade at the balance sheet date. When trade does commence, the Company's trading activities are expected to be within the UK oil and gas ring fence regime, with tax relief for qualifying pre-trading expenditure available at that time. The applicable ring fence tax rate during the year was 40%, comprising 30% ring fence corporation tax and 10% supplementary charge. These were also the substantively enacted rates at the balance sheet.

8 Intangible assets

	Exploration and Evaluation expenditure £000
Cost	
Balance at 1 January 2017	48,411
Other acquisitions – externally purchased	1,772
Other acquisitions – internally developed	34,379
Balance at 31 December 2017	84,562
Accumulated amortisation and impairment	
Balance at 1 January and 31 December 2017	-
Net book value	
At 31 December 2016	48,411
At 31 December 2017	84,562

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

9 Tangible assets

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 January 2017	130	26	156
Balance at 31 December 2017	130	26	156
Accumulated depreciation and impairment			
Balance at 1 January 2017	-	(1)	(1)
Depreciation charge for the financial year	-	(5)	(5)
Balance at 31 December 2017	-	(6)	(6)
Net book value			
At 1 January 2017	130	25	155
At 31 December 2017	130	20	150

Land and Buildings

The net book value of land and buildings comprises:

	Year ended 2017 £000	Year ended 2016 £000
Freehold	130	130
	130	130

10 Interests in joint arrangements

Interests in joint operations

The Company has the following interests in joint operations: an 80% interest in PEDL 162; an 85% interest in EXL273; a 75% interest in PEDLs 147 and 189; a 70% interest in PEDLs 293 and 295; a 60% interest in PEDLs 145 and 193; a 50% interest in PEDLs 184 and 190; a 45% interest in PEDLs 200 and 012; a 40% interest in PEDLs 139 and 140; a 30% interest in PEDLs 287, 342, 288, 346, 273, 305 and 316 and a 25% interest in PEDLs 146, 188, 210 and EXL288.

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

11 Investments

	Shares in group undertakings £000	Total £000
Cost		
At beginning of year	92	92
Additions	-	-
Disposals	-	-
	<hr/>	<hr/>
At end of year	92	92
	<hr/> <hr/>	<hr/> <hr/>

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	Ownership	
			2017	2016
INEOS Offshore BCS Limited* (A)	England	Ordinary	-	100%
INEOS UK E&P Holdings Limited (A)	Scotland	Ordinary	-	100%
INEOS Clipper South B Limited (A)	England	Ordinary	-	100%
INEOS Clipper South C Limited (A)	England	Ordinary	-	100%
INEOS UK SNS Limited (A)	England	Ordinary	-	100%
INEOS 120 Energy Limited* (B)	England	Ordinary	100%	100%
INEOS 120 Exploration Limited (B)	England	Ordinary	100%	100%
INEOS 120 Power Limited (B)	England	Ordinary	100%	100%

*Shares held directly by the Company (forming part of the financial statements)

During 2017 a restructuring was carried out and the shares held by Upstream Limited in INEOS Offshore BCS Limited (and its subsidiaries (A)) were transferred to INEOS Upstream Holdings Limited.

The registered office addresses of the investments disclosed in this note are:

<u>Reference</u>	<u>Registered office address</u>
(A)	Anchor House, 15-19 Britten Street, London SW3 3TY, United Kingdom
(B)	Hawkslease, Chapel Lane, Lyndhurst, Hampshire, SO43 7FG, United Kingdom

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

12 Debtors

	2017 £000	2016 £000
Trade debtors	71	32
Amounts owed by group undertakings	314	449,928
Amounts owed by related parties	8	99
Other debtors	330	23
Prepayments and accrued income	438	541
Taxation and social security	1,391	885
	<hr/>	<hr/>
	2,552	451,508
	<hr/> <hr/>	<hr/> <hr/>
Due within one year	2,391	1,611
Due after more than one year	161	449,897
	<hr/>	<hr/>
	2,552	451,508
	<hr/> <hr/>	<hr/> <hr/>

13 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	384	637
Other creditors	4,314	854
Amounts owed to group undertakings	5,350	49
Amounts owed to related parties	1,844	1,411
Accruals and deferred income	1,884	1,755
	<hr/>	<hr/>
	13,776	4,706
	<hr/> <hr/>	<hr/> <hr/>

14 Creditors: amounts falling due after more than one year

	2017 £000	2016 £000
Amounts owed to group undertakings	125,569	526,562
	<hr/> <hr/>	<hr/> <hr/>

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

15 Interest-bearing loans and borrowings

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

	2017 £000	2016 £000
Debtors: amounts falling due after more than one year		
Intercompany loan	161	449,897
	2017 £000	2016 £000
Creditors: amounts falling due after more than one year		
Intercompany loan	124,569	526,562

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Fair value 2017 £000	Carrying amount 2017 £000	Fair value 2016 £000	Carrying amount 2016 £000
Intercompany loan payable	£ GBP	4.5%	2022	124,569	124,569	76,665	76,665
Intercompany loan payable	\$ USD	7.0%	2020	-	-	449,897	449,897
Intercompany loan receivable	£ GBP	4.5%	2020	(161)	(161)	-	-
Intercompany loan receivable	\$ USD	7.0%	2020	-	-	(449,897)	(449,897)
				124,408	124,408	76,665	76,665

On 1 November 2017 the loan receivable and the loan payable between INEOS Upstream Limited and INEOS Industries Holdings Limited were novated to INEOS Upstream Holdings Limited.

16 Deferred tax assets and liabilities

The directors consider that the Company should not recognise any deferred tax asset as there is insufficient certainty over the future utilisation of its deferred tax assets. The Company has an unrecognised net deferred tax asset of £8,208,646 (2016: £5,952,652) at 31 December 2017.

17 Called up share capital

Share capital

	Ordinary shares	
At 1 January and 31 December 2017 – fully paid		1
	2017 £000	2016 £000
<i>Allotted, called up and fully paid</i>		
1 (2016: 1) Ordinary shares of £1 each	-	-
Shares classified in total equity	-	-

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.

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

18 Contingencies

There are a number of wells on PEDLs that the Company has an interest in that are shut-in or suspended. At this stage no decision has been made to plug and abandon these wells and such a decision is not likely to be made in the short term. As both the timing and cost is uncertain, no provision has been made at the balance sheet date.

As part of the acquisition of Moorland Exploration Limited, INEOS Upstream Limited agreed to release the company from obligations under loan notes and instead agreed to a deferred payment deed with the holders of those loan notes. The deferred payment deed provides for 4.5% of any positive free cash flow attributable to the sale of petroleum from the PEDL licence interest acquired pursuant to this transaction, capped at £15 million.

As part of this same acquisition, the Company also entered into a release and deferred payment deed with Warwick Energy Exploration and Production Limited, the original holder of PEDL120. Under this agreement, Warwick relinquished all claims to the licence interest and the Company committed to pay Warwick 1.5% of any positive free cash flow attributable to the sale of petroleum from PEDL 120, capped at £5 million.

19 Related parties

Other related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow subsidiaries under common ownership. Transactions entered into, and trading balances outstanding at 31 December with other related parties, are as follows:

Other related party transactions

	Administrative income earned from related party		Administrative expenses incurred from related party	
	2017 £000	2016 £000	2017 £000	2016 £000
Other related parties	840	111	6,639	4,392
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Debtors outstanding		Creditors outstanding	
	2017 £000	2016 £000	2017 £000	2016 £000
Other related parties	8	99	1,844	1,411
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

20 Controlling parties

The immediate parent undertaking at 31 December 2017 was INEOS Industries Holdings. The ultimate parent company at 31 December 2017 was INEOS Limited, a company incorporated in Isle of Man. INEOS Industries Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements. Copies of the financial statements can be obtained from the Company Secretary INEOS Industries Limited, Hawkslease, Chapel Lane, Lyndhurst, Hampshire, UK, SO43 7FG.

The directors regard Mr J A Ratcliffe to be the ultimate controlling party by virtue of his majority shareholding in the ultimate parent undertaking INEOS Limited.

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

21 Accounting estimates and judgements

Taxation

All the Company's operations are in the UK. Management is required to estimate the tax payable and this involves estimating the actual current tax charge or credit together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which may be included on the balance sheet of the Company. Management have performed an assessment as to the extent to which future taxable profits will allow the deferred asset to be recovered. The calculation of the Company's total tax charge necessarily involves a significant degree of estimation in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority, or, as appropriate, through a formal legal process.

The Company has, from time to time, contingent tax liabilities arising from trading and corporate transactions. 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 7 and 16.

Carrying value of intangible exploration and evaluation assets

The Company has capitalised intangible exploration and evaluation assets in accordance with IFRS 6, which are evaluated for impairment as described in note 1.8. Any impairment review, involves estimates and assumptions related to matters (when appropriate), such as recoverable reserves, production profiles, review of forward oil, gas and electricity prices, development, operating and off-take costs, nature of land access agreements and planning permissions, application of taxes and other matters. Where the final outcome or revised estimates related to such matters differ from the estimates used in any earlier impairment reviews, the results of such differences, to the extent that they actually affect any impairment provisions, are accounted for when such revisions are made. Details of the Company's intangible exploration and evaluation assets are disclosed in note 8.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on forecast price levels and technology at the balance sheet date. Provision is made for the estimated cost at the balance sheet date, using a discounted cash flow methodology and a risk free rate of return.

Provisions

Other provisions are recognised in the year when it becomes probable that there will be a future outflow of funds resulting from past operations or events that can be reasonably estimated. The timing of recognition requires the application of judgement to existing facts and circumstances, which can be subject to change.

Estimates of the amounts of provisions recognised are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes.