

REPSOL SINOPEC TRANSPORTATION (UT) LIMITED

Report and Financial Statements

For the year ended 31 December 2016

Registered number: 3093642

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Repsol Sinopec Transportation (UT) Limited

Strategic report for the year ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016.

Results

The profit for the year after taxation was \$2.8 million which, when added to the accumulated loss brought forward at 1 January 2016 of \$8.7 million, gives an accumulated loss carried forward at 31 December 2016 of \$5.9 million.

Principal activity and review of the business

The principal activity of the company is the provision of pipeline transportation services into the Flotta terminal. The company's revenue is dependent on production from the MacCulloch field. Production from the MacCulloch field ceased on 3 May 2015, consideration is being given to the possible future use of the pipeline.

The company's key financial and other performance indicators for the financial year were as follows:

	2016	2015 Restated (Note 2)
	\$'000	\$'000
Operating revenue	(41)	1,031
Operating (credit)/expenses	(2,755)	513

Operating revenue decreased by \$1.04 million from \$1.0 million in 2015 to a debit balance of \$0.04 million in 2016 due to the cessation of trading activities in May 2015. The debit balance has arisen as a result of the final tariff actualisation process in 2016.

Operating expenses decreased by \$3.3 million from \$0.5 million in 2015 to a credit of \$2.8 million in 2016 mainly due to an impairment reversal of \$2.9 million (2015: \$nil).

The tax charge for the year was \$0.2 million (2015: \$0.3 million) which reflects the expected tax charge at 20% plus the impact of foreign exchange movements on the deferred tax asset, less the current year movement in the unrecognised deferred tax asset.

Repsol Sinopec Transportation (UT) Limited

Strategic report for the year ended 31 December 2016 (continued)

Principal risks and uncertainties

Repsol Sinopec Transportation (UT) Limited is exposed to a number of risks inherent in exploring for crude oil and natural gas. The principal risk affecting the business is considered to be the cyclical nature of the oil and gas sector.

Business continuity risks

The company's future success depends on its ability to recommence operation of its single wholly owned asset, the MacCulloch oil and gas transportation pipeline, which partly depends on factors beyond its control, including the potential availability of additional future throughput, environmental considerations and regulatory matters. Cost escalation for materials and services may be unrelated to transportation tariff rates and may have a significant impact on project planning and economics.

Operational hazards and responsibilities

Oil and gas producing and transportation operations are subject to many risks, including the possibility of fire, explosions, mechanical failure, pipe failure, chemical spills, accidental flows of oil, natural gas or well fluids, sour gas releases, storms or other adverse weather conditions and other occurrences or accidents, which could result in personal injury or loss of life, damage or destruction of properties, environmental damage, interruption of business, regulatory investigations and penalties and liability to third parties. The company also mitigates insurable risks to protect against significant losses by maintaining a comprehensive insurance program, while maintaining levels and amounts of risk within the group that management believes to be acceptable. The group believes its liability and property insurance is appropriate to its business and consistent with common industry practice, although such insurance will not provide coverage in all circumstances.

Commodity price risk

The company's results are indirectly linked to fluctuations in the oil price which can be very volatile. Decreases in the oil price may reduce profitability by decreasing revenue without a proportional decrease in costs; this may necessitate impairment of asset values and may make projects uneconomic. Increases in the oil price may increase competition for access to resources and encourage cost inflation.

Brexit

On 23 June 2016 the United Kingdom voted to leave the European Union. The long term political and economic effects of this are uncertain as negotiations on Britain's future relationship with EU member states are in the early stages. Management are continuing to monitor the situation closely and are reviewing potential risks to the group.

Repsol Sinopec Transportation (UT) Limited

Strategic report for the year ended 31 December 2016 (continued)

Approved by the Board and signed on its behalf by:



G Crawford
Company Secretary
6 July 2017

Registered Office
20-22 Bedford Row
London
WC1R 4JS

Repsol Sinopec Transportation (UT) Limited

Registered number: 3093642

Directors' report for the year ended 31 December 2016

The directors present their report together with the audited financial statements and auditor's report of Repsol Sinopec Transportation (UT) Limited ("the company") for the year ended 31 December 2016.

Results and dividends

The profit for the year amounted to \$2.8 million. (2015: \$0.5 million). The company has not declared any dividends during the year (2015: \$nil). The directors do not propose the payment of a dividend.

Future developments

The current economic environment with low oil and gas prices has created difficult trading conditions in the oil and gas sector. In order to deliver the basis of a successful and sustainable business the Repsol Sinopec Resources UK Limited group, of which the company is a member, has embarked on a transformation programme focused on delivering improved performance. The directors consider that with the successful completion of the group transformation programme and with the support provided by its shareholders, the company is in a satisfactory position to take advantage of any opportunities which may arise in the future, and plan to continue providing pipeline transportation services.

Going concern

The financial position of the company and its business activities, together with the factors likely to affect its future development, performance and position, are set out above and in the Strategic Report. The group is continuing to undertake a significant programme of investment in capital projects and in upgrading existing assets in order to maximise future returns and cash flows of the business. Funding for this investment will be met by the continued support of the group's shareholders Talisman Colombia Holdco Limited (part of the Repsol S.A. group) and Addax Petroleum UK Limited (part of the Sinopec group) who have signed agreements which govern the operation of the joint venture and provide access to funding facilities. As a result the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and therefore the annual financial statements have been prepared on a going concern basis.

Repsol Sinopec Transportation (UT) Limited

Directors' report for the year ended 31 December 2016 (continued)

Directors

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

Y. Zhang (resigned 27 March 2017)

L. Cabra

M.T. Garcia Blanco

J. R. Baillie (resigned 31 March 2016)

J.F. van Geloven (appointed 1 April 2016, resigned 12 July 2016)

J. Warrender (appointed 13 July 2016)

On 27 March 2017 Guangjun Chen was appointed as a director.

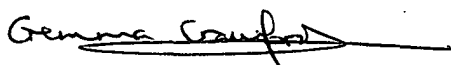
Disclosure of information to the auditor

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 is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

The company has passed an elective resolution to dispense with the obligation to reappoint auditors on an annual basis.

By order of the board



G Crawford
Company Secretary
6 July 2017

Registered Office
20-22 Bedford Row
London
WC1R 4JS

Repsol Sinopec Transportation (UT) Limited

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

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

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

Independent auditor's report to the members of Repsol Sinopec Transportation (UT) Limited

We have audited the financial statements of Repsol Sinopec Transportation (UT) Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 6 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 Report and Financial Statements 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report to the members of Repsol Sinopec Transportation (UT) Limited (continued)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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.

Ernst & Young LLP

Moir Ann Lawrence (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen

.....*12 July*.....2017

Repsol Sinopec Transportation (UT) Limited

Income statement for the year ended 31 December 2016

		2016	2015
	Note	2016	Restated
		\$'000	(Note 2)
			\$'000
Revenue		(41)	742
Other operating income		-	289
Operating revenue	3	(41)	1,031
Operating costs		(103)	(146)
Depreciation of non-current assets	9	-	(364)
Impairment of pipelines	9	2,869	-
Other operating expenses		(11)	(3)
Operating credit/(expenses)		2,755	(513)
Operating profit		2,714	518
Finance income	6	660	631
Finance costs	7	(385)	(416)
Net exchange losses		(2)	(6)
Profit before taxation		2,987	727
Taxation	8	(235)	(268)
Profit for the financial year		<u>2,752</u>	<u>459</u>

The profit of \$2.8 million for the year ended 31 December 2016 (2015: \$0.5 million) was derived in its entirety from continuing operations.

Statement of comprehensive income for the year ended 31 December 2016

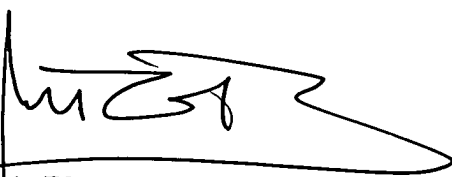
There is no other comprehensive income attributable to the shareholders of the company other than the profit for the year (2015: \$nil).

Repsol Sinopec Transportation (UT) Limited

Statement of financial position as at 31 December 2016

	<u>Note</u>	2016 \$'000	2015 Restated (Note 2) \$'000
Assets			
Non-current assets			
Property, plant and equipment	9	-	-
Deferred tax asset	8	<u>417</u>	<u>565</u>
		417	565
Current assets			
Trade and other receivables	10	<u>24,234</u>	<u>23,921</u>
Total assets		<u>24,651</u>	<u>24,486</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	11	-	103
Non-current liabilities			
Provisions	12	<u>15,276</u>	<u>17,760</u>
Total liabilities		<u>15,276</u>	<u>17,863</u>
Equity			
Called up share capital	13	7,806	7,806
Capital contribution	14	7,500	7,500
Retained deficit	14	<u>(5,931)</u>	<u>(8,683)</u>
Total equity		<u>9,375</u>	<u>6,623</u>
Total liabilities and equity		<u>24,651</u>	<u>24,486</u>

The financial statements of Repsol Sinopec Transportation (UT) Limited (registered number 3093642) were approved by the board of directors on 6 July 2017 and were signed on its behalf by:


M.T. García Blanco
Director

Repsol Sinopec Transportation (UT) Limited

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital (Note 13) \$'000	Capital contribution (Note 14) \$'000	Retained deficit (Note 14) \$'000	Total \$'000
Balance at 1 January 2015 (Restated – note 2)	7,806	7,500	(9,142)	6,164
Profit for the year, representing total comprehensive income	-	-	459	459
Balance at 31 December 2015 (Restated – note 2)	7,806	7,500	(8,683)	6,623
Profit for the year, representing total comprehensive income	-	-	2,752	2,752
Balance at 31 December 2016	<u>7,806</u>	<u>7,500</u>	<u>(5,931)</u>	<u>9,375</u>

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Repsol Sinopec Transportation (UT) Limited (the “company”) for the year ended 31 December 2016 were authorised for issue by the board of directors on 6 July 2017 and the statement of financial position was signed on the board’s behalf by M.T. Garcia Blanco. Repsol Sinopec Transportation (UT) Limited is incorporated and domiciled in England and Wales.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council.

2. Accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with FRS 101. The financial statements have been prepared under the historical cost convention.

The accounting policies that follow have been consistently applied to all years presented.

As permitted by FRS 101, the company has taken advantage of the following disclosure exemptions available under that standard:

- a) The requirements of paragraph 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64 (m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- b) The requirements of paragraphs 91-99 of IFRS Fair Value Measurement
- c) The requirements of IFRS 7 Financial Instruments: Disclosure
- d) The requirements of paragraphs 10(d), 10(f), 40(a), 40(b), 40(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- e) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of;
 - Paragraph 79 (a)(iv) of IAS 1;
 - Paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - Paragraph 118(e) of IAS 38 Intangible Assets;
- f) The requirements of paragraphs 134(d)-134(f) of IAS 36, Impairment of Assets;
- g) The requirements of IAS 7 Statement of Cash Flows;
- h) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
- i) The requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures; and
- j) The requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016 (continued)

2. Accounting policies (continued)

(a) Basis of preparation (continued)

Where relevant, equivalent disclosures are given in the group financial statements of Repsol Sinopec Resources UK Limited. The Repsol Sinopec Resources UK Limited financial statements are available to the public and can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

The financial statements are presented in US dollars and all values are rounded to the nearest thousand dollars (\$'000), except where otherwise indicated. The year-end rate at 31 December 2016 was £1/\$1.23 (2015: £1/ \$1.48).

Restatement of the Income Statement and Statement of Financial Position for the year ended 31 December 2015

The directors have identified that costs incurred during 2015 relating to the intelligent pig inspection of the MacCulloch pipeline had been understated having been booked in a sister company. Subsequent recharges to an external customer at cost plus margin had also been booked in the sister company. This has the effect of increasing other operating income for the year ended 31 December 2015 by \$0.3 million and increasing trade receivables by the same amount.

The directors have also identified that letter of credit fees incurred in the period 1 January 2013 – 31 December 2015, paid by the immediate parent company on behalf of Repsol Sinopec Transportation (UT) Limited, had not been re-charged in the accounting period in which the costs were incurred. This has resulted in an increase in operating expenses for the year ended 31 December 2015 of \$0.02 million for the element of costs relating to the 2015 calendar year and a decrease in retained earnings for the element relating to 2013 and 2014 of \$0.06 million. There is a corresponding decrease in amounts due from parent company of \$0.08 million.

The tax effect of the above restatements is \$0.06 million. This decreases the profit for the year ended 31 December 2015 by \$0.06 million and increases corporation tax payable by the same amount.

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016 (continued)

2. Accounting policies (continued)

(b) Critical accounting estimates and judgements

The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. The company has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the consolidated financial statements.

The most important estimates and judgements in relation thereto are:

Decommissioning provision

Amounts used in recording a provision for decommissioning are estimates based on the company's current view of legal and constructive requirements and technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to decommissioning are likely to differ in practice.

To reflect the effects due to changes in legislation, requirements and technology and price levels, the carrying amounts of decommissioning provisions are reviewed on a regular basis. The effects of changes in estimates do not give rise to prior year adjustments and are dealt with prospectively. While the company uses its best estimates and judgement, actual results could differ from these estimates.

In estimating decommissioning provisions, the company applies an annual inflation rate of 2.0% from 2019 onwards (2015: 2.0%) and an annual discount rate of 2.58% (2015: 2.17%).

Recovery of deferred tax assets

Judgement is required to determine whether deferred tax assets are recognised in the consolidated statement of financial position.

Deferred tax assets arising from the carry forward of tax losses require management to assess the probability that sufficient future taxable profits will be available against which the carry forward losses can be utilised. These assessments are based on management's estimates of forecast cash flows from operations (which are impacted by production and sales volumes, oil prices, reserves, operating costs, capital and decommissioning expenditure).

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016 (continued)

2. Accounting policies (continued)

(b) Critical accounting estimates and judgements (continued)

Recovery of deferred tax assets (continued)

Deferred tax assets arising from future decommissioning expenditure require management to assess the likelihood that the company will be able to carry back such expenditure against the taxable profits of earlier accounting periods or offset such expenditure against future profits. Assumptions about the recovery of historic taxes paid depend on management's estimates of future decommissioning costs and forecast cash flows from operations as well as judgement about the application of existing tax laws.

To the extent that future cash flows and taxable income, or future decommissioning expenditure, differ significantly from estimates, the ability of the company to realise deferred tax assets could be impacted.

(c) Property plant and equipment, depreciation and depletion

Unamortised costs are depreciated on a straight line basis over the anticipated life of the associated pipeline.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment loss is measured by reference to the value of an income generating unit, with cash flows discounted at an appropriate rate.

(d) Foreign currency translation

The financial statements are presented in US dollars, which is the currency of the primary economic environment in which the company operates (its functional currency). The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

Transactions in currencies other than the company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences are taken to the income statement in the period in which they arise. Non-monetary assets and liabilities, other than those measured at fair value are not retranslated subsequent to initial recognition.

(e) Revenue recognition

Revenue from sales is recognised when the significant risks and rewards of

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016 (continued)

2. Accounting policies (continued)

(e) Revenue recognition (continued)

ownership have transferred to the buyer and when the amount is recoverable and can be reasonably measured. Revenue associated with sales of oil and gas is recorded upon transfer of title, according to the terms of the sales contract.

Revenue is recognised when petroleum products pass through the company's pipeline system.

(f) Abandonment

The company has oil and gas properties and associated facilities with the legal obligation to decommission and remove from service at the end of its economic life. The provision for abandonment has been developed using its current view of technology and pricing. All decommissioning operations must comply with the terms of the relevant license, permits, accepted industry practice and any local, national or international laws and regulations.

In addition, the company has capitalised an amount equivalent to the provision as a non-current asset in property, plant and equipment, which is amortised over the life of the field on a unit-of-production basis.

(g) Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax losses and the carry back of ring fence tax losses, to the extent that it is probable that taxable profit will be available against which the temporary differences and the carry forward or carry back of unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016 (continued)

2. Accounting policies (continued)

(g) Taxation (continued)

Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future or historic taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

Group relief

The company is a member of a group for the purposes of group relief under Part 5 of the Corporation Tax Act 2010.

The company accounts for group relief as follows:

- Payment is received for group relief losses surrendered to other group companies.
- Payment is charged for group relief losses claimed from other group companies.

The value of the payment is determined by the amount of corporation tax saved by reason of the group relief being surrendered or claimed.

(h) Related party transactions

The company has taken advantage of the exemption contained within paragraphs 8(k) and (j) of FRS 101, and has not disclosed transactions entered into with wholly-owned group companies or key management personnel.

(i) Effect of changing estimates

The effects of changes in estimated costs or other factors affecting straight line calculations for depreciation and abandonment are reflected in the year of change and thereafter over the anticipated life of the pipelines.

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016 (continued)

3. Operating revenue

All of the company's revenue and operating profit arises from continuing activities in the North Sea. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business and is stated net of value added tax.

	2016 <u>\$'000</u>	2015 Restated (Note 2) <u>\$'000</u>
Revenue from pipeline transportation services	(41)	742
Other operating income	<u>-</u>	<u>289</u>
	<u>(41)</u>	<u>1,031</u>

4. Auditor's remuneration

	2016 <u>\$'000</u>	2015 <u>\$'000</u>
Fees for the audit of the company	<u>34</u>	<u>49</u>

The auditor's remuneration for audit services is paid by the parent company, Repsol Sinopec Resources UK Limited.

The company has taken advantage of the disclosure exemption contained in regulation 120(5)(c) of S.I. No. 210 of 2010 and has not disclosed fees paid to the company's auditor and its associates for services other than the statutory audit.

5. Directors' remuneration

The current year directors are representatives of the parent company shareholders (see note 16). They are senior executives of, and are remunerated by, the shareholder company (or another company in its group). They received no fees or remuneration for services as a director of Repsol Sinopec Transportation (UT) Limited during the financial year 2016 (2015: nil).

6. Finance income

	2016 <u>\$'000</u>	2015 <u>\$'000</u>
Intercompany interest	<u>660</u>	<u>631</u>

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016 (continued)

7. Finance costs

	2016 \$'000	2015 \$'000
Unwinding of discount on abandonment provision	<u>385</u>	<u>416</u>

8. Taxation

The taxation charge in the income statement is made up as follows:

	2016 \$'000	2015 Restated (Note 2) \$'000
Current income tax:		
- group relief	<u>(87)</u>	<u>(264)</u>
Total current income tax	<u>(87)</u>	<u>(264)</u>
Deferred tax:		
- current year (charge)/credit	(80)	24
- foreign exchange loss	<u>(68)</u>	<u>(28)</u>
Total deferred tax	<u>(148)</u>	<u>(4)</u>
Tax charge on profit before taxation	<u>(235)</u>	<u>(268)</u>

	2016 \$'000	2015 Restated (Note 2) \$'000
Factors affecting the total tax charge for the year:		
Profit before taxation	2,987	727
Tax on profit before taxation at 20% (2015: 20.25%)	(597)	(147)
Effects of:		
Deferred tax not recognised	430	(90)
Non-ring fence adjustments	-	(3)
Foreign exchange on deferred tax	<u>(68)</u>	<u>(28)</u>
Total tax charge for the year	<u>(235)</u>	<u>(268)</u>

Profits are subject to the main rate of corporation tax, being 20% for the year ended 31 December 2016.

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016 (continued)

8. Taxation (continued)

Deferred tax

The deferred tax included in the income statement and statement of financial position is as follows:

	Income statement		Statement of financial position	
	2016	2015	2016	2015
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Income tax related:				
Deferred tax assets				
Abandonment timing differences	(148)	(4)	417	565
			417	565
Deferred tax benefit	<u>(148)</u>	<u>(4)</u>		
Deferred tax asset (net)			<u>417</u>	<u>565</u>

The company's deferred tax asset at 31 December 2016 has been recognised to the extent that future decommissioning expenditure can be carried back and set off against the taxable ring fence profits of the company for earlier accounting periods. In accordance with IAS 12 – Income Taxes, the company has assessed the recoverability of its deferred tax asset at 31 December 2016 with respect to the ring fence treatment of losses arising as a result of decommissioning. Future decommissioning expenditure, as reflected in the closing abandonment provision, has been matched to ring fence corporation tax paid in prior years to determine the amount of taxes recoverable.

A deferred tax asset of \$2.5 million has not been recognised, primarily in relation to the provision for future decommissioning expenditure. After consideration of all available information it is uncertain that there will be suitable taxable profits from which the future reversal of the temporary differences can be deducted.

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016 (continued)

9. Property, plant and equipment

	Pipelines \$'000
Cost:	
At 1 January 2015	(6,772)
Change in abandonment estimate	<u>364</u>
At 31 December 2015	(6,408)
Change in abandonment estimate	<u>(2,869)</u>
At 31 December 2016	<u>(9,277)</u>
Depreciation and impairment:	
At 1 January 2015	6,772
Charge for the year	<u>(364)</u>
At 31 January 2015	6,408
Impairment credit	<u>2,869</u>
At 31 December 2016	<u>9,277</u>
Net carrying amount:	
At 31 December 2016	<u><u>-</u></u>
At 31 December 2015	<u><u>-</u></u>

All assets are within the North Sea area. Included within depreciation and impairment is an impairment credit of \$2.9 million (2015: \$nil) related to the MacCulloch Pipeline.

The impairment credit is a result of changes in long-term cash flow assumptions including commodity prices, commercial reserves and the related cost profiles. The impairment was measured by reference to the fair value less costs to dispose of the cash generating unit (CGU) to which oil and gas assets have been allocated. For the purposes of impairment testing, core areas of assets is a CGU. The post-tax discount rate applied to cash flows was 7% nominal (2015: 7% nominal). The discount rate reflects the weighted average cost of capital of the shareholders of the parent company Repsol Sinopec Resources UK Limited, adjusted for the country risk premium of the parent company.

10. Trade and other receivables

	2016 \$'000	2015 Restated (Note 2) \$'000
Trade receivables	-	289
Amounts due from parent undertaking	24,205	23,630
Other receivables	27	-
Other taxes	<u>2</u>	<u>2</u>
	<u>24,234</u>	<u>23,921</u>

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016 (continued)

11. Trade and other payables

	2016 \$'000	2015 Restated (Note 2) \$'000
Corporation tax payable	-	66
Accruals and deferred income	-	37
	<u>-</u>	<u>103</u>

12. Provisions

	Abandonment provision \$'000
Current	-
Non-current	17,760
At 1 January 2016	17,760
Change in abandonment estimate	(2,869)
Unwinding of discount	385
At 31 December 2016	15,276
Analysed as:	
Current	-
Non-current	15,276

At 31 December 2016, the provision for the future estimated costs of abandonment at the statement of financial position date was \$15.3 million (2015: \$17.8 million). The provision for abandonment has been developed using its current view of technology and pricing and discounted using a risk free discount rate of 2.58% (2015: 2.17%). The costs are expected to be incurred within the next 23 years.

13. Called up share capital

	2016 \$'000	2015 \$'000
Allotted, issued and fully paid		
5,000,002 ordinary shares of £1 each	7,806	7,806

Repsol Sinopec Transportation (UT) Limited

Notes to the financial statements – 31 December 2016 (continued)

14. Reserves

Capital contribution

The balance on the capital contribution reserve represents the waiver in 2014 of an intercompany balance payable by the company to its parent company.

Retained deficit

The balance held on this reserve is the accumulated profits and losses of the company.

15. Capital commitments and contingencies

At 31 December 2016 the company has provided letters of credit in the amount of \$2.7 million (2015: \$2.8 million) as security for the costs of future dismantlement, site restoration and abandonment costs for the MacCulloch pipelines. Estimated costs are subject to uncertainty associated with the method, timing and extent of future dismantlement, site restoration and abandonment.

16. Controlling party

The immediate parent undertaking of the company is Repsol Sinopec North Sea Limited, a company registered in England and Wales. The parent undertaking of the smallest and largest group of which the company is a member and for which group financial statements are prepared is Repsol Sinopec Resources UK Limited.

Repsol Sinopec Resources UK Limited is jointly controlled by Talisman Colombia Holdco Limited and Addax Petroleum UK Limited.

The ultimate parent company of Talisman Colombia Holdco Limited is Repsol S.A., which is registered in Spain. The ultimate beneficial owners of Addax Petroleum UK Limited are China Chengtong Holdings Group Limited, China Reform Holdings Corporation Limited and China Petrochemical Corporation, which are all state owned entities of the People's Republic of China.