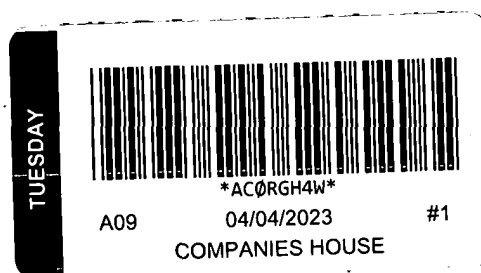


**Petroineos Manufacturing Scotland
Limited**

Annual report and financial statements

Registered number SC010612

31 December 2021



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Strategic report for the year ended 31 December 2021

The directors present their strategic report on Petroineos Manufacturing Scotland Limited for the year ended 31 December 2021.

S172 (1) Statement

The directors comply with the obligations under the Companies Act 2006 when carrying out their duties. This includes a commitment to Section 172, pursuant to which the directors promote the success of the company whilst having regard to a number of specified matters.

The Board recognises its responsibilities to consider the needs and concerns of our stakeholders as part of our decision making process. By gaining insight and understanding of our key stakeholder relationships within our joint venture group, being the parent company, Petroineos Refining Limited a joint venture between PetroChina International (London) Co., Limited and Ineos Investments (Jersey) Limited, with its subsidiaries, Petroineos Manufacturing Scotland Limited, Petroineos Fuels Assets Limited and Petroineos Manufacturing France. Our stakeholders also include the wider PetroChina and Ineos organisations, our workforce and our regulators, that help support safe, compliant and profitable refining operations.

The close relationship with our group entities and the joint venture shareholders allows the Company to leverage the strength and expertise of the group, including the refining knowledge and skills of Ineos.

The Company performs strategic, operational and financial planning. This allows the Company to communicate details of planned outages and other refinery activities to our stakeholders. It also expedites decision-making in response to unforeseen challenges.

Review of business and future developments

Petroineos Manufacturing Scotland Limited operates a refinery in Grangemouth, Scotland. The principal refining products are LPG's, chemical feedstocks, transport fuels, heating and fuel oils. The business processes crude oil into refining products on behalf of a related party, Petroineos Trading Limited, under a toll processing agreement.

Safety performance during 2021 was very good. Total employment and contractor injuries were low and lower than 2020. None of the injuries in either year were regarded as serious. Separately, the recorded number of environmental incidents during the year was worse than 2020 with more reportable events. None of these events, in either year, resulted in a significant loss of containment.

The advent of the Coronavirus pandemic and subsequent lockdowns in the refinery's key markets has continued to affect operations during 2021. Optimistically, all grades saw demand recovery during the year as restrictions gradually lifted. However, the available margins on barrels processed was very low as European refineries increased throughput to meet the additional demand. This negatively affected the Company's tolling revenue and, as a result, underlying profit (before asset impairments and restructuring costs) was a loss of £41,542,000 (2020: loss of £33,243,000). This situation has largely reversed in 2022 as markets have seen a near-full recovery from the pandemic and tolling income has benefitted from improved refining margins following the restrictions in the supply of crude oil and other hydrocarbons arising from the war in the Ukraine. At the end of 2021, net liabilities were £33,580,000 (2020: £34,077,000).

Despite a significantly improved 2022, the longer-term outlook for European refining remains challenging. During November 2020, as a result of the economic climate, the directors took the decision to resize refinery operations based on a single cracker and 150,000 barrels per day crude capacity. The resized refinery allows the wider Petroineos business to concentrate on product sales to inland markets and reduce its reliance on exports. The accompanying operational restructuring will create a more efficient refinery and a more competitive cost structure. In resizing its operations, the Company saw limited use for its Fluid Catalytic Cracking Unit (FCCU) and one of its Crude Distillation Units (CDU1). Accordingly, it took an impairment charge of £44,658,000 against these assets and related inventories. At the same time, the Company recognised a provision in respect of staff redundancy and decommissioning costs of £2,500,000 that has been since been fully utilised. Since then, the Company has re-visited its methodology to assess the carrying value of its remaining refinery plant, equipment and other assets and determined that a further impairment was required. This has been presented as a prior year adjustment and the 2020 results and balance sheet have been restated to include further write-downs in the value of tangible assets of £337,200,000 and intangible assets of £1,142,000. Further details are disclosed in note 27.

Strategic report for the year ended 31 December 2021 (continued)

Strategy

The Company's aim is to operate the Refinery safely with high availability whilst reducing operating costs from the historic levels. The Refinery has put implemented an improvement plan based on the 2014 Solomon benchmarking report, issued in 2015. Following the restructuring outlined above, the longer-term objective is to operate the refinery with a lower base cost structure and allow the Petroineos trading business to develop inland markets. The strategic aim is to reposition the refinery to be a cost competitive European producer of transport fuels over the next 5 -10 years.

Key performance indicators (KPI's)

Under the terms of the toll processing agreement with Petroineos Trading Limited the charges levied reflect both the operational performance of the Hydrocracker (HCU) and the effectiveness of performing turnarounds on this unit and as such management have identified this as a key performance indicator for measurement.

The performance versus targets for 2021 were as follows:

	Target	Actual
Availability % HCU	90.67	93.15

Principal risks and uncertainties

The principal risks and uncertainties facing the Company arise from the regulatory environment, its operational resilience and future of the wider refining industry in light of climate change. Risks associated with the UK Brexit transition period and uncertainties arising from the COVID-19 pandemic have lessened significantly in the post-balance sheet period. The current war in the Ukraine has not had a significant detrimental impact on operations, other than inflationary pressure on its costs.

Regulatory risk

The Company operates in a highly competitive and volatile environment and must maintain and modernise the refinery and associated assets in order to remain competitive and keep abreast of evolving and increasingly stringent regulations. The Company and wider Petroineos group employs staff and external advisors to monitor and manage these risks. Funding to realise new projects and keep up to date with prevailing legislation is managed through the relationship with Petroineos Trading Limited.

Climate change

The directors acknowledge that hydrocarbon fuels are a significant source of greenhouse gases driving climate change. As a result, the wider Petroineos group of companies continues to devote significant resource to implementing efficiencies and targeting suitable alternative technologies to drive down the level of emissions. Progress in reducing emissions is expected to mitigate the risks arising from uncertainty in future environmental legislation and penalties designed to curtail the release of greenhouse gases.

Approved and signed on behalf of the board



Andrew Pizzey
Director

Bo'Ness Road
Grangemouth
Stirlingshire
FK3 9XH

31 March 2023

Directors' report for the year ended 31 December 2021

The directors present their report and audited financial statements of the Company for the year ended 31 December 2021.

Principal activities

The Company is engaged in the toll refining of petroleum products under a toll processing agreement with a related party, Petroineos Trading Limited.

Purpose and Leadership

As a subsidiary within a joint venture group of companies, the Company has a clear strategy and purpose which is set out in the shareholders agreement of the parent, Petroineos Refining Limited.

The Company's strategy is developed as part of its shareholder group's global strategy and is further developed using a combination of a "top down" and "bottom up" approach, under which senior management adopt an open dialogue with staff.

The Company also has a clear and pronounced set of principles which are supported and constantly reinforced by its operational policies.

Board Composition

The Board recognise that diversity is a key value of the Company and an inclusive cultural outlook is promoted throughout the organisation.

The composition of the Board is focussed on its ability to offer a skills matrix which reflects areas of specialist industry experience within refinery management, safety and broad international experience as well as general experience of leadership, strategy, governance, risk management and financial acumen.

Whether through executive management or constructive challenge against the executive, each Board member is able to make a valuable contribution to the Company.

Directors Responsibilities

The joint venture governing documentation provides for the structure of the Company's leadership and Board decision making procedures. The executive have further established management roles and meetings to provide forums to assist with the effective operation of the Company and the deployment of specialist skills and expertise. The board being composed of directors proposed by the shareholder (a joint venture entity) mitigate the risk of any individual director having too much unfettered power by providing a means of independent challenge and accountability.

Formal and robust internal reporting is undertaken to enable executive management to comprehensively monitor the performance of the Company.

Opportunity and Risk

The Company creates and preserves value through its operation of the Grangemouth refinery and its contribution to the Petroineos joint venture group. As a company it maintains its commitment to regulatory compliance and sound business practices.

The management of risk is primarily through its co-operation with other entities within the group and adherence to the overall strategy of the joint ventures risk control committee, which operates across the organisation to identify, manage and escalate a broad spectrum of operational matters. This risk management regime is implemented throughout the organisation through the use and enforcement of an extensive set of risk controls and policies.

Directors' report for the year ended 31 December 2021 (continued)

Stakeholder Relationships and Engagement

The directors have regard to interests and views of its key stakeholders when taking decisions (see Stakeholder Engagement Report and Section 172(1) Statement for further details). This is particularly the case for matters affecting other Petroineos group companies with whom the Company has an interdependent relationship under the joint venture, and its shareholder group, whose financial strength and expertise is leveraged in support of the joint venture.

The Company also recognises the importance of its workforce who are critical to its success. Practices are in place for employee engagement across the various functions as well as between the workforce and executive management.

Stakeholder Engagement Report

During the financial year ending 31 December 2021, the Company updated its review across the organisation to identify its stakeholder relationships. It was intended that the outcome of this review would allow the Board to gain a closer understanding of its key stakeholder relationships and to provide a better focus for the consideration of stakeholder interests in its decision making processes.

The Company has a wide range of stakeholders which includes the following categories:

- Internal and affiliated stakeholders: its workforce, shareholders, other entities within the Petroineos joint venture
- External stakeholders: governments and regulatory bodies, trade unions, industry groups and forums

The means of engagement with each stakeholder varies according to the nature of the relationship and the available means.

Employees are considered to be a critical stakeholder and so recruiting, nurturing and retaining a talented workforce underpins the Company's strategic plans. The Board have proactively sought to develop employee initiatives and enhance workplace experience (including employee support and monitoring, competitive remuneration and benefit package).

We engage with our workforce throughout their career with the Company and on an ongoing basis, providing support and development opportunities. As a subsidiary within a joint venture between companies of different cultures, we provide a diverse and inclusive cultural outlook for our employees and customers. We value and respect individuals and encourage innovation. Employees have access to an intranet enabling them to view and apply for all internal vacancies, monitor benefits and policies. There is also consideration for employee wellbeing through provision of onsite occupational health advice. Apprentice and graduate programmes are available and are widely advertised internally and externally.

The other entities within the Petroineos joint venture group are also acknowledged to be important stakeholders of the Company. For example, Petroineos Trading Limited provides the raw material for the Company's Grangemouth refinery to process.

The Company maintains a close relationship with its owners, PetroChina and Ineos, who extend certain strategic strengths to it. By leveraging our shareholders' strategic strengths, the Company has built a robust refining operation and we maintain a strong focus on quality, safety, improving profitability and maintaining high environmental performance. The Company also shares best practice and learns from the experiences of the sister refinery based in Lavera, France.

Directors' report for the year ended 31 December 2021 (continued)

The Company engages with a diverse range of trading counterparties and suppliers of goods and services which are fundamental to its profit making ability.

The Company and the group in general has robust compliance policies and measures in place to comply with laws including those on health and safety, anti-bribery, data protection and anti-money laundering.

Employee Engagement Report

The Company places great importance on keeping employees fully informed on the various factors affecting their employment and the Company by issuing communications on the Company intranet which includes a newsfeed, information on the company's performance, local site issues, IT, human resources information and vacancies, health and safety, occupational health and matters relevant to the local community of Grangemouth.

There is a joint council of management and voluntary employment representatives with remit to discuss and consider certain employee issues.

Additionally, signage and posters are located across the site to communicate on various matters including employee benefits, occupational health, health and safety. There are also regular formal meetings with union representatives and management of the company to review issues that arise. The union representative represents and feeds back to its members. As well as enabling engagement between management and employees, these forums help the directors to appreciate and have regard to the interests of employees and which in turn can feed in to company decision making.

Results and dividends

The loss before taxation was £50,568,000 (2020 restated: loss of £428,208,000). The directors do not propose the payment of a dividend (2020: £nil).

Future developments

Future developments, are discussed in the strategic report.

Financial risk management

The Company and its parent company, Petroineos Refining Limited are reliant on funding from Petroineos Trading Limited to meet the anticipated needs of the company. As at 31 December 2021, the Petroineos Trading Group had access to uncommitted bank credit facilities of \$7,095 million of which \$1,506 million were utilised in the form of loans and \$1,705 million utilised in the form of letters of credit.

Going concern

The parent company, Petroineos Refining Limited, has indicated through a letter of support to the Company that it will continue to financially support the Company and assist it in meeting the Company's liabilities as and when they fall due to the extent that funding is not otherwise available to the Company. In addition, Petroineos Refining Limited commits not to demand immediate repayment of any part of the amount owed for at least 12 months from the date of approval of the financial statements if, in doing so, it compromises the Company's ability to continue as a going concern.

The directors have presented a full assessment of going concern and its application to the basis of preparation of these financial statements within the accounting policies note on page 19.

Directors' report for the year ended 31 December 2021 (continued)

Directors

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

Franck Demay	
Gerard Hepburn	Resigned 4 February 2021
Yizhou Luo	Resigned 16 August 2021
Russell Mann	
Andrew Pizzey	Appointed 4 February 2021
Gong Wang	
Zhu Wenjin	Appointed 16 August 2021, resigned 31 December 2022
Hongyan Zhang	Resigned 31 December 2022
Xiaoqiang Wang	Appointed 31 December 2022
Xinhong Wang	Appointed 31 December 2022

Directors' indemnities

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

Employees

The Company has developed voluntary practices and procedures for employee involvement appropriate to their own circumstances and needs. The Company encourages this approach to provide information and consultation and believes that this promotes a better understanding of the issues facing the individual business in which the employee works.

The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by people with a disability. Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Political Contributions

The Company made no political contributions or incurred any political expenditure during the year (2020: nil).

Charitable Contributions

The Company made no charitable contributions during the year (2020: £2,500).

Health & safety

Our facilities and operations are subject to a wide range of health, safety, security and environmental ("HSSE") laws and regulations in all of the jurisdictions in which we operate. These requirements govern, among other things, the manufacture, storage, handling, treatment, transportation and disposal of hazardous substances and wastes, wastewater discharges, air emissions (including GHG emissions), noise emissions, human health and safety, process safety and risk management and the clean-up of contaminated sites. Many of our operations require permits and controls to monitor or prevent pollution. We have incurred, and will continue to incur, substantial ongoing capital and operating expenditures to ensure compliance with current and future HSSE laws, regulations and permits or the more stringent enforcement of such requirements.

Our operations are currently in material compliance with all HSSE laws, regulations and permits. We actively address compliance issues in connection with our operations and properties and we believe that we have systems in place to ensure that environmental costs and liabilities will not have a material adverse impact on us.

Directors' report for the year ended 31 December 2021 (continued)

Streamlined Energy and Carbon Reporting (SECR)

The Company has used the operational control approach to determine the boundary for greenhouse gas (GHG) reporting. The boundary principally relates to the oil refinery, situated in Grangemouth, Scotland, including the crude oil tanks at Kinneil. It also includes the Finnart ocean terminal on the west coast of Scotland and the connecting pipelines to the Grangemouth refinery. The Company owns no other premises. For completeness, the oil terminal located at Dalston in the North West of England is owned and operated by another group company, Petroineos Fuel Assets Limited.

In preparing this report, the Company has followed the HM Governmental Environmental Reporting Guidelines (March 2019) as well as the GHG Protocol Corporate Standard. The 2019 UK Government's Conversion Factors for Company Reporting have been used to calculate GHG emissions.

Energy totals are reported in megawatt-hours (MWh) and GHG totals are reported in tonnes of carbon dioxide equivalent (tCO₂e). The chosen intensity measurement ratio is total emissions per tonne of products manufactured (tCO₂e/t). The total tonnes of products manufactured during the year to 31 December 2021 was 5,712,962 (2020: 6,124,536).

Following the outbreak of the coronavirus pandemic and its effect on the market demand for hydrocarbon products, the level of activity at the refinery in both 2020 and 2021 was unusually low. This has resulted in lower than previous GHG emissions and a higher GHG intensity ratio.

Scope 1 emissions arise from fuel combustion, principally to provide heat to furnaces and other plant and equipment within the refinery. Scope 2 emissions relate to purchased energy, mainly for steam and electricity from on-site heat and power plants. Each of scope 1 and 2 emissions are calculated from emission factors relevant to the hydrocarbon fuel consumed.

The table below presents the Company's GHG emissions and energy consumption for the year.

	2021	2020
Scope 1: GHG emissions (tCO ₂ e)	788,582	1,039,619
Scope 2: GHG emissions (tCO ₂ e)	419,934	434,634
Total gross scope 1 & 2 emissions (tCO ₂ e)	1,208,516	1,474,253
GHG intensity ratio (tCO ₂ e/t)	0.21	0.24

Energy consumption used to calculate the above emissions:

Scope 1 (MWh):	3,266,426	3,959,608
Scope 2 (MWh):	1,593,798	1,741,835

Directors' report for the year ended 31 December 2021 (continued)

Streamlined Energy and Carbon Reporting (SECR) (continued)

During the year, the Company has pursued a number of initiatives that have driven down the carbon emissions. These include:

Commitment to net zero emissions

As part of association with the Ineos Group, the Company is committed to achieving net zero CO₂ emissions by 2050 and making progress to this commitment by 2025. To this end, the Company is partnering with third parties to review possible alternate models of operations at its Grangemouth refinery. Initiatives under consideration range from reducing the fossil fuel component of its products to large-scale use of hydrogen as a fuel and carbon capture and storage. These are long-term goals for the organisation and, although progress has been made, they remain at the planning and design stage at present.

During 2020, the Company announced the closure of one of its Crude Distillation Units and the Fluid Catalytic Cracking Unit. This has significantly reduced the carbon footprint of the refinery.

Separately, the Company also tracks a range of metrics designed to identify opportunities to improve energy efficiency and optimisation of hydrocarbon use. Principally, these include Energy Inefficiency Index reporting and mass-balance measures of hydrocarbon loss and flaring.

Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- (i) so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware.
- (ii) each director has taken all the steps that they ought to have taken in their duty as director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Reappointment of auditors

Deloitte LLP were appointed to fill a casual vacancy. A resolution to reappoint Deloitte LLP will be proposed to the forthcoming AGM.

Approved and signed on behalf of the board



Andrew Pizzey

Director

31 March 2023

Registered number SC 010612

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the Annual 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 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 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 its financial statements comply with the Companies Act 2006. The directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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.

Independent auditor's report to the members of Petroineos Manufacturing Scotland Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Petroineos Manufacturing Scotland Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss 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.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent auditor's report to the members of Petroineos Manufacturing Scotland Limited

Other information (continued)

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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 auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

Independent auditor's report to the members of Petroineos Manufacturing Scotland Limited

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included environmental regulations.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our procedures performed to address it are described below:

- inappropriate revenue recognition through manipulation of the manual complex tolling calculation, which we tested via inspection of all the associated revenue invoices and tracing to cash received and recalculation of the tolling calculation, including consideration of the key inputs and methodology applied.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent auditor's report to the members of Petroineos Manufacturing Scotland Limited

Matters on which we are required to report by exception

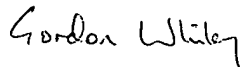
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Gordon Whiley, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
31 March 2023

Profit and Loss Account
for the year ended 31 December 2021

	<i>Note</i>	2021	2020
		£'000	£'000
			Restated
			(note 27)
Turnover	2	260,855	209,862
Cost of sales		(298,124)	(238,314)
Gross loss		(37,269)	(28,452)
Distribution costs		(3,752)	(4,791)
Impairment of tangible and intangible assets and inventories	3,4	(521)	(383,000)
Restructuring costs	4	-	(2,500)
Operating loss	3	(41,542)	(418,743)
Interest payable and similar charges	7	(9,277)	(9,465)
Interest receivable and similar income	8	251	-
Loss before taxation		(50,568)	(428,208)
Tax credit on loss	9	33,259	83,875
Loss for the financial year attributable to owners of the company		(17,309)	(344,333)

All activities of the company relate to continuing operations.

The accompanying notes on pages 18 to 51 form part of these financial statements.

Statement of Comprehensive Income

for the year ended 31 December 2021

	<i>Note</i>	2021 £'000	2020 £'000 Restated
Loss for the financial year		(17,309)	(344,333)
Other comprehensive income/(expense)			
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial gain recognised in the pension scheme	21	21,983	15,988
Deferred tax arising on actuarial gains in the pension scheme	9,20	(4,177)	(3,038)
Other comprehensive income for the year, net of income tax		17,806	12,950
Total comprehensive income/(expense) for the year attributable to owners of the company		497	(331,383)


The accompanying notes on pages 18 to 51 form part of these financial statements.

Balance Sheet

At 31 December 2021

	Note	2021 £'000	2020 £'000 Restated (note 27)
Fixed assets			
Intangible assets	10	239	4,024
Tangible fixed assets	11	169,790	204,565
Total Fixed assets		170,029	208,589
Current assets			
Post-employment benefits due after more than one year	21	39,968	13,009
Inventories	12	12,118	13,180
Debtors			
– Trade and other debtors (including £10.0 million (2020: £7.3 million) due after more than one year)	13	105,357	83,520
– Deferred tax asset	13,20	103,331	84,803
Cash at bank and in hand	14	1,116	1,065
Total current assets		261,890	195,577
Creditors: amounts falling due within one year	15	(453,286)	(420,298)
Net current liabilities		(191,396)	(224,721)
Total assets less current liabilities		(21,367)	(16,132)
Creditors: amounts falling due after more than one year	16	(10,973)	(15,445)
Provisions for liabilities			
Other provisions	19	(1,240)	(2,500)
Net liabilities		(33,580)	(34,077)
Capital and reserves			
Called up share capital	22	35	35
Share premium account		344,631	344,631
Profit and loss account		(378,246)	(378,743)
Total equity		(33,580)	(34,077)

These financial statements on pages 14 to 51 were approved by the board of directors on 31 March 2023 and were signed on its behalf by:


 Andrew Pizzey
 Director
 Company registered number SC 010612

Statement of Changes in Equity

	Called up share capital	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2020	35	344,631	(47,360)	297,306
Total comprehensive expense for the year				
Loss for the financial year as reported	-	-	(70,276)	(70,276)
Restatement adjustment – see note 27	-	-	(274,057)	(257,057)
Loss for the year - restated	-	-	(344,333)	(344,333)
Other comprehensive income	-	-	12,950	12,950
Total comprehensive expense for the year	-	-	(331,383)	(331,383)
Balance at 31 December 2020	35	344,631	(378,743)	(34,077)

	Called up share capital	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2021	35	344,631	(378,743)	(34,077)
Total comprehensive income for the year				
Loss for the financial year	-	-	(17,309)	(17,309)
Other comprehensive income	-	-	17,806	17,806
Total comprehensive income for the year	-	-	497	497
Balance at 31 December 2021	35	344,631	(378,246)	33,580

The accompanying notes on pages 18 to 51 form part of these financial statements.

Notes (forming part of the financial statements)

1 Accounting policies

Petroineos Manufacturing Scotland Limited (the “Company”) is a private company limited by shares, incorporated in Scotland and domiciled in the UK. The registered office address is Bo’ness Road, Grangemouth, Stirlingshire, FK3 9XH.

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

These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Company operates.

These financial statements are separate financial statements.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 (“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.

The Company’s parent undertaking, Petroineos Refining Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Petroineos Refining Limited are prepared in accordance with International Financial Reporting Standards and can be obtained from the Company Secretary, The Adelphi, 1-11 John Adam Street, London, WC2N 6HT.

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

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

- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

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

1 Accounting policies (continued)

1.2 Going concern

Notwithstanding net current liabilities of £191 million as at 31 December 2021 (2020: restated £225 million net current liability) and a loss for the year then ended of £17 million (2020: restated £344 million loss), the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

In determining the appropriate basis of preparation for the financial statements for the year ended 31 December 2021, the Directors are required to consider whether the Company will be able to operate within the level of available funding and cash for the foreseeable future, being a period of at least twelve months following the approval of the financial statements. The Directors have concluded that it is appropriate to adopt the going concern basis, having undertaken an assessment of the financial forecasts and key uncertainties as set out below.

The Company provides toll processing services to Petroineos Trading Limited under the terms of a toll processing agreement. Production schedules are based on orders from Petroineos Trading Limited in consideration for a processing fee. The processing fee is a base cost-plus tolling fee arrangement adjusted for variances in margin environment and operational efficiency. The agreement has no fixed term but is in force unless terminated “unilaterally by either party giving the other not less than 12 months’ prior written notice.” At the date of approval of these financial statements the arrangement was still in force and no notice of termination had been made by either party. Furthermore, the shareholders agreement between Ineos Investments (Jersey) Limited and PetroChina International (London) Co., Ltd requires that Petroineos Trading Limited fund the Company’s future working capital and capital expenditure requirements.

Since late March 2020, the Petroineos Group has faced challenges and uncertainties in the refining business and demand for fuel products and refining margins have been adversely affected by the pandemic. However, at the signing date of these accounts, the UK and wider European economy has largely emerged from the pandemic and the associated risks have lessened significantly. Additional risk arising from the Russian invasion of the Ukraine and subsequent economic sanctions has had a minimal effect on the Company’s operations, save for inflationary pressure on its costs, an upward movement in refining margins and inherently greater uncertainty in predicting future prices. Forecasts prepared, taking account of severe, but plausible downsides, demonstrate that the wider Group will be able to operate within the level of currently available uncommitted facilities for a period of at least twelve months following the approval of the financial statements.

Petroineos Trading Limited has indicated its intention to continue to provide financial and other support to Petroineos Refining Limited and its subsidiaries, including the Company, to operate as a Going Concern for a period of at least twelve months from the date of approval of the financial statements.

The Going Concern assessment of the Company is reliant on uncommitted banking facilities continuing to be made available to Petroineos Trading Limited, to draw-down throughout the forecast period for the purpose of Trade Finance and general-purpose corporate borrowing in order to fund the Company’s future working capital and capital expenditure requirements. The nature of uncommitted banking facilities means that the ongoing availability of the facilities, in their entirety, and the approvals to draw-down the facilities are outside the control of Petroineos Trading Limited. Should such uncommitted facilities not be made available to Petroineos Trading Limited to utilise in the next twelve months, PetroChina International (London) Co., Ltd has indicated its intention to make available banking facilities and cash to enable Petroineos Trading Limited to meet its financial liabilities and obligations as they fall due and continue to trade.

Furthermore, the Company’s forecasts are dependent on Petroineos Refining Limited not seeking repayment of the amounts currently due to Petroineos Refining Limited, which at 31 December 2021 amounted to £360 million (2020: £323 million), and providing additional financial support during the forecast period. Petroineos Refining Limited has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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 currency 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 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 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.

Capital work in progress is held as assets under construction until fully commissioned and transferred into active use.

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. Assets under construction and freehold land are not depreciated. The estimated useful lives are as follows:

- Freehold Buildings 20 years
- Plant and machinery 4 - 30 years

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

Assets under construction are not depreciated.

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

1 Accounting policies *(continued)*

1.6 *Intangible assets*

Intangible assets, other than carbon emissions allowances, are stated at cost less any accumulated amortisation or impairment losses. Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets. The intangible assets are amortised from the date they are available for use. The estimated useful lives are between one to four years.

Carbon emission allowances are held at purchased cost and utilised against carbon emissions. (See emissions trading scheme policy, note 1.16.)

1.7 *Government grants*

Capital related government grants are shown in the balance sheet as deferred income. This income is amortised on a straight line basis over the same period as the tangible fixed asset to which it relates or the life of the related project. Revenue grants are credited to the profit and loss account in the same period as the items to which they relate.

Grants received under the Government's coronavirus furlough scheme are disclosed in note 3.

1.8 *Inventories*

Inventories are valued at the lower of cost to the Company, mainly using the weighted average method, or net realisable value. Provision is made where necessary for obsolete, slow moving and defective stocks.

1.9 *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.

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, 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" (CGU)).

Impairment

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in 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)

1.10 Post employment benefits

Defined contribution plan

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

Defined benefit plan

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset). A surplus is recognised to the extent that the company is able to recover the surplus through reduced contributions or refunds.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from the defined benefit plan comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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.

1.12 IFRS 16 Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Company accounts for each lease component separately from the non-lease components. However, for the leases of land and plant and equipment, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

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

1 Accounting policies *(continued)*

1.12 Leases *(continued)*

The Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably certain to exercise;
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company presents right-of-use assets that do not meet the definition of investment property in 'plant and machinery' and lease liabilities in 'loans and borrowings' in the balance sheet.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract applying IFRS 15.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

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

1 Accounting policies (continued)

1.12 Leases (continued)

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

1.13 Turnover

Turnover, which is stated net of value added tax, represents the recovery of costs plus a mark-up from Petroineos Trading Limited under the terms of the toll processing agreement between the two companies. Under the toll processing agreement, Petroineos Trading Limited provides raw materials to be converted into specified products, for which the company charges a toll fee. These fees are charged on a monthly basis and are recognised on an accrual basis, as the service is delivered.

1.14 Expenses

Interest receivable and interest payable

Finance income comprises interest receivable on cash and cash equivalents and from amounts receivable from other group undertakings and related parties. Group and related party receivables are generally administered on an "in-house cash" basis with interest rates calculated at agreed margins over one-month LIBOR. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest payable includes interest payable, finance charges on shares classified as liabilities and 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.

1.15 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.

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

1 Accounting policies (continued)

1.15 Taxation (continued)

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.

1.16 Emission trading scheme

The Company participates in the UK Emissions Trading Scheme. The Scheme encourages companies to reduce carbon emissions by offering financial incentives if they achieve their annual reduction targets. If a company reduces emissions beyond their target then the surplus may be traded in the form of emission permits.

The incentive money due from the UK Emission Trading Scheme is recognised in the profit and loss account once the reduction targets have been met. The emissions permits allocated under the scheme are at nil cost. The Company recognises the revenue from such permits upon their sale to third parties.

The Company accrues for emissions produced. The accrual is measured at the carrying amount of the emission rights held (nil if granted, otherwise at cost) or, in the case of a shortfall, at the current fair value of the emission rights needed.

Emissions allowances purchased from third parties are recognised as an intangible asset based on the cost associated with the purchase. The emission allowances are subject to impairment under the indefinite lived intangible asset impairment model. There is no amortisation of these allowances. The costs of these allowances are recognised as a disposal and released to the profit and loss account along with the accrual as they are utilised.

1.17 Changes in accounting policy

There are no amendments or interpretations to accounting policies that apply for the first time in 2021. Consequently, there is no impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

1.18 Adoption of new and revised standards

In the preparation of these financial statements, the following amendments to IFRS, which became effective during the period, have been applied with no material impact on the Company:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- Extension of the Temporary Exemption from Applying IFRS 9 to 1 January 2023 (amendments to IFRS 4); and
- COVID-19-Related Rent Concessions (Amendment to IFRS 16).

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

1 Accounting policies (continued)

1.19 Critical accounting judgements and key sources of estimation uncertainty

The company prepares its financial statements in accordance with FRS 101, which require management to make judgements, estimates and assumptions which affect the application of the accounting policies, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates change and in any future periods.

Critical judgements in applying the company's accounting policies

The directors do not consider there to be any critical judgements, apart from those involving estimations, which are presented separately below.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Taxation

Management is required to estimate the tax payable in the jurisdiction in which the Company operates. This involves estimating the actual current tax charge or credit together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which may be included on the balance sheet of the Company. Management has performed an assessment as to the extent to which future taxable profits will allow the deferred asset to be recovered. The calculation of the 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.

Details of amounts recognised with regard to taxation are disclosed in note 9 and note 20.

Post employment benefits

The Company operates a defined benefit post employment scheme. The plan is now closed to new entrants and frozen to future accrual. Under IAS 19 Revised Employee Benefits, management is required to estimate the present value of the future defined benefit obligation of each defined benefit scheme. The costs and year end obligations under the defined benefit scheme is determined using actuarial valuations. The actuarial valuations involve making numerous assumptions, including:

- inflation rate projections,
- discount rate for scheme liabilities,
- life expectancy; and
- asset valuations.

Details of post employment benefits are set out in note 21.

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

1 Accounting policies *(continued)*

1.19 Critical accounting judgements and key sources of estimation *(continued)*

Impairment of Property, Plant and equipment

For the purpose of impairment testing (when required), to assess whether any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in the planned use of buildings, plant or equipment, or closure of facilities, lower than expected asset utilisation or technical obsolescence, could result in shortened useful lives or impairment.

Further details on the impairment review recognised in 2021 are provided in note 4.

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

2 Turnover

Turnover represents the recovery of costs plus mark up from Petroineos Trading Limited under the terms of the toll processing agreement between the companies. Under the toll processing agreement, Petroineos Trading Limited provides raw materials to be converted into specified products, for which the Company charges a toll fee. All turnover relates to activities in the UK. Turnover in relation to the tolling fee is £260,353,000 (2020 £209,298,000) and sundry revenue of £502,000 (2020: £567,000).

There are no contract assets or liabilities outstanding at the end of the year (2020: nil). All amounts due are included in Debtors (note 13).

3 Operating loss

Included in loss are the following:

	2021	2020
	£'000	£'000
		Restated
Net foreign exchange gain	(251)	(76)
Depreciation of owned assets (note 11)	70,803	77,982
Revaluation of tangible fixed assets (note 11)	626	(350)
Impairment of tangible fixed assets (notes 4, 11)	521	379,080
Impairment of inventories (notes 4, 12)	-	2,778
Restructuring costs (notes 4, 19)	-	2,500
Impairment of intangible asset (note 10)	-	1,142
Amortisation of intangible assets (note 10)	94	687
Amortisation of government grants	(416)	(416)

During the year the Company received £114,954 (2020: £300,592) under the HMRC coronavirus furlough scheme.

Auditor's remuneration:

	2021	2020
	£'000	£'000
Audit of these financial statements	320	83

The auditor did not perform any non-audit services for the company during the year (2020: none).

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

4 Impairment of tangible assets, inventories and restructuring costs

	2021	2020
	£'000	£'000
		Restated
Impairment of tangible assets (note 11)	521	379,080
Impairment of intangible assets (note 10)	-	1,142
Impairment of inventories (note 12)	-	2,778
Restructuring costs (note 19)	-	2,500
	521	385,500

On 10 November 2020, the Company announced its intention to resize its operations based on a single cracker and 150,000 barrels per day crude capacity. The aim is to secure the site for the longer term by creating a smaller, more efficient refinery and a more competitive cost structure. In resizing its operations, the Company saw limited use for its Fluid Catalytic Cracking Unit (FCCU) and one of its Crude Distillation Units (CDU1). Accordingly, during 2020, it took an impairment charge of £44,658,000 against these assets and related inventories. At the same time, the Company has recognised a provision in respect of staff redundancy and decommissioning costs of £2,500,000 that is being utilised during 2021 and 2022. Subsequent to 31 December 2020, the Company reviewed its methodology for valuing the carrying amount of its remaining assets. Accordingly it recognised a further impairment of £1,142,000 against its intangible assets and £337,200,000 against its tangible assets. This has been treated as a prior year restatement. Further details are disclosed in note 27. The key assumptions used to derive this impairment are summarised below. During 2021, further supporting assets to the FCCU totally £521,000 were also impaired.

Impairment test

For the purpose of the impairment test, assets have been fully allocated to one cash-generating unit, being the integrated operations based in Grangemouth, Scotland. The recoverable amount for the cash generating unit is determined at the higher of the fair value less costs to sell and its value in use. Historically, the fair value less costs to sell approach has provided the greater recoverable amount. However, with the advent of the coronavirus pandemic and the progress to a green economy, management have reviewed the impairment methodology and now support an approach based on a more appropriate value in use basis.

To derive value in use, management have projected cash flows over a period commensurate with the Company's strategy. This includes forecasting the baseline crude oil price and refining margins in real terms based on market data. This is then used to determine the refineries operating costs and EBITDA. Capital expenditure and forecast cash payments are then deducted to derive free cash flow for each year. A terminal value is calculated at the end of this period and a discount factor is applied to determine an enterprise value. On this basis, the directors believe that the recoverable value of its refining assets is £237 million. Accordingly, the accounts reflect additional impairments of intangible assets of £1,142,000 and tangible assets of £337,200,000.

The discount rate used is 3.1% (2020: 3.1%), reflecting the relatively risk-free revenue to the Company under the tolling agreement. The model assumes that capital expenditure is recovered in the tolling fees as the depreciation is recognised on those assets. The model does not assume recovery of any depreciation beyond the terminal value date.

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

4 Impairment of tangible assets, inventories and restructuring costs *(continued)*

Sensitivities of recoverable amounts

The table below shows the effect on discounted cash flows, and therefore the carrying value of assets arising from a movement of either one per cent or one year on the key assumptions:

	Increase/(decrease) in recoverable value	
	2021 £'000	2020 £'000
2% increase in discount rate	(40,623)	(38,222)
2% decrease in discount rate	49,109	46,664
One additional year of depreciation recovery	23,111	21,588
One further year of cash flow beyond terminal value	36,764	25,059
One fewer years of cash flow beyond terminal value	(37,903)	(25,836)

5 Staff number and costs

The average number of persons employed by the Company (including one director who is on the company payroll) during the year, analysed by category, was as follows:

	Number of employees	
	2021	2020
Operations	352	370
Maintenance	154	186
Other – support services	53	60
	<u>559</u>	<u>616</u>

The aggregate payroll costs of these persons were as follows:

	2021 £'000	2020 £'000
Wages and salaries	35,771	35,114
Social security costs	3,381	3,650
Pension costs - defined contribution plan	2,471	2,700
Pension costs - defined benefit plan (note 21)	<u>633</u>	<u>728</u>
	<u>42,256</u>	<u>42,192</u>

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

6 Directors' remuneration

The aggregate emoluments of directors:

	2021	2020
	£'000	£'000
		Restated
Directors' emoluments	607	530
	607	530

The aggregate of emoluments of the highest paid director as £203,542 (2020: £198,500)

No directors had benefits accruing under a defined benefit pension scheme (2020: none).

Four directors (2020: three directors) received fees and remuneration of £607,481 (2020: £529,703) in respect of qualifying services as a director of the Company during the financial year. Directors' fees and remuneration is allocated between companies in the wider Petroineos group of companies based on an assessment of time spent on each of these entities.

During 2021, the company revised the approach on allocation of qualifying services for directors and consequently restated the comparatives for the prior period. The previously reported directors emoluments for 2020 was £207,966.

7 Interest payable and similar charges

	2021	2020
	£'000	£'000
Interest expense on financial liabilities measured at amortised cost	8,815	8,881
Net interest on net defined benefit plan liability (note 21)	-	103
Interest on lease liabilities	459	479
Other interest payable	3	2
Total interest payable and similar charges	9,277	9,465

Interest payable and similar charges include interest payable to group undertakings of 8,814,781 (2020: £8,880,775).

8 Interest receivable and similar income

	2021	2020
	£'000	£'000
Net interest on net defined benefit plan asset (note 21)	251	-
Total interest receivable and similar income	251	-

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

9 Tax credit on loss

Recognised in the profit and loss account

	2021	2020
	£'000	£'000
		Restated
<i>UK corporation tax</i>		
Group relief receivable	(11,598)	(13,533)
Adjustment in respect of previous years	1,044	(994)
Total current tax credit	(10,554)	(14,527)
<i>Deferred tax (see note 20)</i>		
Origination and reversal of temporary differences	3,148	(2,340)
Prior year adjustment in respect of asset impairment	-	(62,285)
Adjustments in respect of prior years	128	(490)
Effective tax rate change on opening balance	(25,981)	(2,233)
Total deferred tax credit	(22,705)	(69,348)
Tax credit on loss	(33,259)	(83,875)

Income tax recognised in other comprehensive income

	2021	2020
	£'000	£'000
Deferred tax arising on actuarial gains in the pension scheme	4,177	3,038
	4,177	3,038

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

9 Tax credit on loss *(continued)*

Reconciliation of effective tax rate

	2021	2020
	£'000	£'000
		Restated
Total tax credit	(33,259)	(83,875)
Loss before taxation	(50,568)	(428,208)
Loss multiplied by the standard rate of tax in the UK of 19% (2020: 19%)	(9,608)	(81,360)
Expenses not deductible for tax purposes	377	461
Expenditure within RDEC regime	781	741
Movement in tax rates in respect of deferred tax	(25,981)	(2,233)
Adjustments to tax charge in respect of previous periods	(1,172)	(1,484)
Total tax credit	(33,259)	(83,875)

The standard rate of corporation tax in the UK remained at 19% for the entire duration of the year ended 31 December 2021.

Finance Act 2021 increased the rate of corporation tax from 19% to 25% with effect from 1 April 2023. Deferred tax assets and deferred tax liabilities are recognised at either 19% or 25% depending upon whether they are expected to reverse before or after 1 April 2023 respectively.

Subsequent to 31 December 2020, the Company reviewed its methodology for assessing the carrying value of its remainder intangible and tangible assets. The Company has aligned its deferred tax position accordingly and, consequently, has increased its deferred tax asset, resulting in a tax credit of £64,285,000. This has been treated as a prior year restatement. Further details are disclosed in note 27.

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

10 Intangible assets

	Environmental Certificates £'000	Other Intangibles £'000	Total £'000
Cost			
At 1 January 2020	-	2,145	2,145
Additions	10,296	83	10,379
Disposals	(6,272)	-	(6,272)
At 31 December 2020	4,024	2,228	6,252
At 1 January 2021	4,024	2,228	6,252
Additions	-	333	333
Disposals	(4,024)	-	(4,024)
At 31 December 2021	-	2,561	2,561
Accumulated amortisation and impairment			
At 1 January 2020	-	(399)	(399)
Disposals	-	-	-
Amortisation charge	-	(687)	(687)
At 31 December 2020 as previously reported	-	(1,086)	(1,086)
Impairment charge - restated (note 27)	-	(1,142)	(1,142)
At 31 December 2020 - restated	-	(2,228)	(2,228)
At 1 January 2021	-	(2,228)	(2,228)
Disposals	-	-	-
Amortisation charge	-	(94)	(94)
At 31 December 2021	-	(2,322)	(2,322)
Net book value			
At 31 December 2020 - restated	4,024	-	4,024
At 31 December 2021	-	239	239

Other intangible additions in the year relate to software.

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

11. Tangible fixed assets

Cost	Land & Buildings £'000	Plant and Machinery £'000	Under Construction £'000	Total £'000
Balance at 1 January 2020	6,069	893,305	133,295	1,032,669
Additions	4,821	8,593	33,801	47,215
Disposals	-	(459)	-	(459)
Transfers	-	61,844	(61,844)	-
Reclassification	-	4,761	-	4,761
Balance at 31 December 2020	10,890	968,044	105,252	1,084,186
Balance at 1 January 2021	10,890	968,044	105,252	1,084,186
Additions	-	-	39,710	39,710
Transfers	-	(332)	-	(332)
Reclassification	-	20,396	(20,880)	(484)
Balance at 31 December 2021	10,890	988,108	124,082	1,123,080
Accumulated depreciation and impairment				
Balance at 1 January 2020	(558)	(423,689)	-	(424,247)
Disposals	-	459	-	459
Depreciation charge for the financial year	(521)	(77,461)	-	(77,982)
Impairment	-	(35,413)	(6,467)	(41,880)
Revaluation	-	350	-	350
Reclassification	-	879	-	879
Balance at 31 December 2020 as previously reported	(1,079)	(534,875)	(6,467)	(542,421)
Prior year adjustment - further impairment	-	(337,200)	-	(337,200)
Balance at 31 December 2020 - restated	(1,079)	(872,075)	(6,467)	(879,621)
At 1 January 2021	(1,079)	(872,075)	(6,467)	(879,621)
Depreciation charge for the financial year	(509)	(70,294)	-	(70,803)
Impairment	-	-	(521)	(521)
Revaluation	-	(2,345)	-	(2,345)
Balance at 31 December 2021	(1,588)	(944,714)	(6,988)	(953,290)
Net book value				
At 31 December 2020 - restated	9,811	95,969	98,785	204,565
At 31 December 2021	9,302	43,394	117,094	169,790

The net book value of freehold land and buildings is £9,302,000. The revaluation income is in relation to precious metals, being the fixed bed catalyst on the Cat Reformer (CRU) that contains Rhenium and Platinum, the volumes of these materials are marked to market based on the price at year end. Included above is plant and machinery and land assets held under leases with a net book value of £3,610,989 (2020: £9,795,438) and £9,137,329 (2020: £9,645,865) respectively. Depreciation for the year on these assets was £6,184,449 (2020: £6,929,306) and £508,537 (2020: £521,543) respectively. Included in plant and machinery are insurance spares with a net book value of £7,724,297 (2020: £8,843,557). Included in assets under construction are supporting assets to the FCCU of £521,000 with a net book value of £nil. A summary of the prior year adjustment in respect of asset impairment is included in note 27.

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

11 Tangible fixed assets (continued)

	Land & Buildings £'000	Plant and Machinery £'000	Total £'000
Right of use assets			
Balance at 1 January 2020	5,904	13,680	19,584
Additions to ROU assets	4,821	8,677	13,498
Disposals	(351)	(108)	(459)
Balance at 31 December 2020	10,374	22,249	32,623

Accumulated depreciation and impairment

Balance at 1 January 2020	(558)	(5,632)	(6,190)
Disposals	351	108	459
Depreciation charge for the financial year	(521)	(6,929)	(7,450)
Balance at 31 December 2020	(728)	(12,453)	(13,181)

	Land & Buildings £'000	Plant and Machinery £'000	Total £'000
Right of use assets			
Balance at 1 January 2021	10,374	22,249	32,623
Additions to ROU assets	-	-	-
Disposals	-	-	-
Balance at 31 December 2021	10,374	22,249	32,623

Accumulated depreciation and impairment

Balance at 1 January 2021	(728)	(12,453)	(13,181)
Disposals	-	-	-
Depreciation charge for the financial year	(509)	(6,184)	(6,693)
Balance at 31 December 2021	(1,237)	(18,637)	(19,874)

Net book value

At 31 December 2020	9,646	9,796	19,442
At 31 December 2021	9,137	3,612	12,749

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

12 Inventories

	2021	2020
	£'000	£'000
Process chemicals	3,739	6,283
Plant spares	8,379	6,897
	<u>12,118</u>	<u>13,180</u>

A reclassification to Plant and Machinery took place in the year for insurance spares, with a net book value of £7,724,297 (2020: £8,843,557) being classified under tangible fixed assets (note 11).

The cost of inventories recognised as an expense and included in cost of sales amounted to £4,111,997 (2020: £1,040,601).

The difference between the carrying value of inventories and their replacement cost is not material.

13 Debtors

	2021	2020
	£'000	£'000
		Restated
Trade debtors	41	42
Amounts owed by related parties	59,212	35,881
Amounts owed by group undertakings	8,717	16,443
Other debtors	3,184	1,773
Prepayments and accrued income	34,203	29,381
	<u>105,357</u>	<u>83,520</u>
Deferred tax (note 20)	<u>103,331</u>	<u>84,803</u>
	<u>208,688</u>	<u>168,323</u>
Due within one year	198,736	161,053
Due after more than one year	9,952	7,270

The amounts owed by related parties are in relation to the tolling fee charged to Petroineos Trading Limited, consortium tax relief from PetroChina International (London) Limited and cost recoveries charged to Ineos Group Holdings S.A.

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

14 Cash at bank and in hand

	2021	2020
	£'000	£'000
Cash at bank and in hand	<u>1,116</u>	<u>1,065</u>

15 Creditors: amounts falling due within one year

	2021	2020
	£'000	£'000
Trade creditors	16,175	12,690
Amounts owed to group undertakings	359,975	322,687
Amounts owed to related parties	24,242	19,528
Obligations under leases (note 17)	1,411	2,741
Other creditors	23,376	20,966
Taxation and social security	1,905	10,815
Accruals and deferred income	<u>26,202</u>	<u>30,871</u>
	<u>453,286</u>	<u>420,298</u>

The amounts owed to related parties are in relation to the tolling fee adjustments payable to Petroineos Trading Limited, and support costs from Ineos Group Holdings S.A.

16 Creditors: amounts falling due after more than one year

	2021	2020
	£'000	£'000
Obligations under leases (note 17)	<u>10,973</u>	<u>15,445</u>

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

17 Leases

Leases as a lessee (IFRS 16)

Right-of-use assets

	Land and Buildings	Plant and Machinery	Total
	£000	£000	£000
At 1 January 2020	5,346	8,048	13,394
Additions	4,821	8,677	13,498
Depreciation charge for the year	(521)	(6,929)	(7,450)
At 31 December 2020	9,646	9,796	19,442

	Land and Buildings	Plant and Machinery	Total
	£000	£000	£000
Balance at 1 January 2021	9,646	9,796	19,442
Depreciation charge for the year	(509)	(6,184)	(6,693)
At 31 December 2021	9,137	3,612	12,749

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

17 Leases (continued)

Changes in lease liabilities

	Lease Liabilities £000
At 1 January 2020	12,753
Recognition of lease liabilities	13,498
Repayment of borrowings	(8,177)
Interest expense recognised	479
Other lease adjustments and exchange differences	(367)
At 31 December 2020	18,186

	Lease Liabilities £000
At 1 January 2021	18,186
Recognition of lease liabilities	-
Repayment of borrowings	(6,208)
Interest expense recognised	459
Other lease adjustments and exchange differences	(53)
At 31 December 2021	12,384

Amounts recognised in profit or loss

The following amounts have been recognised in profit or loss for which the Company is a lessee:

	2021 £000	2020 £000
Leases under IFRS 16		
Interest expense on lease liabilities	459	479

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

17 Leases (continued)

The weighted-average incremental borrowing rate for lease liabilities initially recognised as of 1 January 2021 was 3%. The weighted average remaining lease term for leases is 3 years.

The undiscounted maturity analysis of leases as at 31 December is as follows:

	2021	2020
	£000	£000
Within 1 year	3,228	5,926
More than 1 year but not later than 5 years	3,019	5,833
More than 5 years	9,002	9,752

Lessor non-cancellable operating lease rentals

Petroineos Manufacturing Scotland Limited owns the refining site at Grangemouth, Scotland. A toll processing agreement exists with Petroineos Trading Limited. The agreement specifies that the Grangemouth site will provide toll processing services to Petroineos Trading directly, that the production schedule at Grangemouth will be based on orders from Petroineos Trading, and the sites will de facto be dedicated to the agreements.

In consideration for the Petroineos Manufacturing Scotland Limited obligations under the toll processing agreement, Petroineos Trading Limited pays a processing fee. This processing fee is calculated based on the fixed, variable and depreciation costs incurred by the site referable to the agreement, plus a fixed processing margin which is reviewed periodically. The base cost plus tolling fee is adjusted to reflect variances in the margin environment and the operational efficiency of the refinery. The pricing structures are not fixed per unit of output. The agreement came into force on 1 June 2011 and continued in full force until 31 December 2017, at which point it automatically continued however it may be terminated by either party, giving twelve months notice. The term of the lease is considered to be twelve months.

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

18 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.

	2021	2020
	£'000	£'000
Creditors falling due within less than one year		
Intercompany loan	359,961	322,670
	359,961	322,670

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2021 £'000	Carrying amount 2021 £'000	Face value 2020 £'000	Carrying amount 2020 £'000
Intercompany loan	£	2.5% + Libor	Repayable on demand	359,961	359,961	322,670	322,670
				359,961	359,961	322,670	322,670

19 Other provisions

	2021	2020
	£'000	£'000
Balance at 1 January	2,500	-
Provisions made during the year	2	2,500
Provisions used during the year	(1,262)	-
Balance at 31 December	1,240	2,500

Other provisions in both 2020 and 2021 relate solely to restructuring costs in respect of staff redundancy and decommissioning. The original provision was for £2,500,000 and is expected to be fully utilised by 2024. Further details are disclosed in note 4.

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

20 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	Net
	2021	2021	2021
	£'000	£'000	£'000
Tangible fixed assets	75,098	-	75,098
Tax value of loss carry-forwards	35,828	-	35,828
Employee benefits	-	(7,595)	(7,595)
Net tax assets/(liabilities)	110,926	(7,595)	103,331

	Assets	Liabilities	Net
	2020	2020	2020
	£'000	£'000	£'000
	Restated		Restated
Tangible fixed assets	66,543	-	66,543
Tax value of loss carry-forwards	20,732	-	20,732
Employee benefits	-	(2,472)	(2,472)
Net tax assets/(liabilities)	87,275	(2,472)	84,803

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

20 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

	1 January 2021 £'000 Restated	Recognised in income £'000	Recognised in equity £'000	31 December 2021 £'000
Tangible fixed assets	66,543	8,555	-	75,098
Tax value of loss carry-forwards	20,732	15,096	-	35,828
Employee benefits	(2,472)	(946)	(4,177)	(7,595)
	84,803	22,705	(4,177)	103,331

Movement in deferred tax during the prior year

	1 January 2020 £'000	Recognised in income £'000 Restated	Recognised in equity £'000	31 December 2020 £'000 Restated
Tangible fixed assets	5,903	60,640	-	66,543
Tax value of loss carry-forwards	11,345	9,387	-	20,732
Employee benefits	1,245	(679)	(3,038)	(2,472)
	18,493	69,348	(3,038)	84,803

The directors consider that it is probable that there will be sufficient taxable profits in the future such as to realise the recognised deferred tax asset on accelerated capital allowances and short term timing differences. Where there is uncertainty of the reversal of such differences, these amounts remain unprovided.

The deferred tax movement recognised in income relating to tangible fixed assets during 2020 was previously presented as £3,645,000 (credit). Following the recognition of a further impairment as a prior period adjustment, as described in note 27, the amount of the temporary difference increased and this movement was restated to £60,640,000 as shown in the table above. This resulted in the total movement previously presented of £20,518,000 being restated as £84,803,000.

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

21 Post employment benefits

The Company operates a defined benefit pension plan, which is a final salary scheme. The scheme covers employees of Petroineos Europe Limited, Petroineos Trading Limited and Petroineos Manufacturing Scotland Limited. The scheme is managed by Trustees, who are directors of Innovene Trustee Limited which has a trust deed in favour of Petroineos Europe Limited. There are five Trustees in total, comprising two employer-nominated members, two employee-nominated members and an independent Chair. They are responsible for the management and governance of the scheme and act in accordance with the Trust Deed and Rules as well as UK pensions legislation and have a duty to act in the interests of members. The contributions paid to the plan are set every three years based on a funding agreement between the Company and Trustees after taking actuarial advice. The full scheme assets and liabilities have been included in the financial statements of Petroineos Manufacturing Scotland Limited as we are unable to split the assets and liabilities of the scheme between the respective companies. Petroineos Manufacturing Scotland Limited is also the principal employer and meets most of the scheme's cost. The scheme is now closed to new entrants and frozen to future service accrual. The scheme is HMRC-approved, operates under UK pensions legislation and is subject to the funding requirements set out in the Pensions Act 2004.

In accordance with International Financial Reporting Standards, pension charges in relation to the Pension Fund have been accounted for under IAS 19 "Revised Employee Benefits" in these financial statements. The scheme is of a defined benefit type under which benefits are based on employees' years of service and final remuneration.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the years shown.

The scheme duration is an indicator of the weighted average time until benefit payments are made. For the scheme as a whole, the duration is approximately 24 to 25 years.

The actuarial valuation deficit of £38.8 million is used to judge the amount required to be put into the pension scheme. It will almost always be different to the IAS 19 accounting surplus of £40 million (2020: £13 million surplus). Accounting standards require companies to assume pension fund growth at a standard rate reflecting a relatively low level of risk. The accounting deficit figure is calculated as at the balance sheet date of 31 December 2021, while the actuarial deficit was calculated as at 31 December 2020.

Based on the assessment of the Trust Deed and Rules, the Company's view is that it has an unconditional right to refund under IFRIC 14.11(b). This assumes the gradual settlement of liabilities over time and means that there is no requirement to recognise any additional liabilities for committed deficit recovery contributions nor to restrict any balance sheet surplus that might emerge in the future.

As part of the investment strategy, the Fund holds both return-seeking assets and risk-reducing assets. Risk-reducing assets comprise Absolute Return Bonds, Long Lease Property and Liability Driven Investments. The Liability Driven Investments form 37.5% of the asset portfolio and is a pooled fund managed by an investment manager regulated under the Financial Services and Markets Act 2000. These investments are held in a range of leveraged index-linked gilt funds (Matching Plus Fund Range) as well as unleveraged single stock index-linked gilt funds that aim to hedge a proportion of the interest rate and inflation risk inherent within the Plan's liabilities.

Risks associated with the scheme

The scheme exposes the Company to some risks, the most significant of which are:

Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit. The Scheme holds a proportion of return-seeking assets which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

Inflation risk

The Scheme's benefit obligations are linked to inflation and changes in interest rates. The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations may increase the surplus. The Plan invests within a Liability Driven Investment mandate, which aims to hedge this risk.

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

21 Post employment benefits *(continued)*

Life expectancy

The majority of the Scheme's obligations are to provide benefits for the lifetime of the member, so increases in life expectancy will result in an increase in the liabilities.

	2021	2020
	£'000	£'000
Total defined benefit asset	263,876	252,793
Total defined benefit liability	(223,908)	(239,784)
Net asset for defined benefit obligations (see following table)	39,968	13,009
Total post employment benefits	39,968	13,009

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

21 Post employment benefits (continued)

Movements in net defined benefit (asset)/liability

	Defined benefit obligation		Fair value of plan assets		Net defined benefit (asset)/liability	
	2021	2020	2021	2020	2021	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January	239,784	230,019	(252,793)	(222,693)	(13,009)	7,326
Included in profit or loss						
Current service cost*	633	728	-	-	633	728
Interest cost/(income)	3,698	4,794	(3,949)	(4,691)	(251)	103
Plan amendments	-	232	-	-	-	232
	4,331	5,754	(3,949)	(4,691)	382	1,063
Included in Comprehensive Income						
Remeasurement gain						
Actuarial (gain)/loss arising from:						
- Changes in demographic assumptions	(490)	(436)	-	-	(490)	(436)
- Changes in financial assumptions	1,109	21,740	-	-	1,109	21,740
- Experience adjustment	2,766	(212)	-	-	2,766	(212)
Return on plan assets excluding interest income	-	-	(25,368)	(37,080)	(25,368)	(37,080)
	3,385	21,092	(25,368)	(37,080)	(21,983)	(15,988)
Other						
Contributions paid by the employer	-	-	(5,358)	(5,410)	(5,358)	(5,410)
Benefits paid	(23,592)	(17,081)	23,592	17,081	-	-
Balance at 31 December	223,908	239,784	(263,876)	(252,793)	(39,968)	(13,009)

* The current service cost relates to scheme administration expenses only and not to the accrual of benefits.

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

21 Post employment benefits (continued)

	2021	2020
	£'000	£'000
Plan assets		
Equities (fund manager portfolio)	91,075	99,765
Bonds – Government index-linked	100,928	92,823
Bonds - Corporate	23,764	23,533
Real estate	27,811	25,720
Cash and cash equivalents	14,342	2,226
Other quoted securities	5,956	8,726
	263,876	252,793

All equity securities, bonds and other securities have quoted prices in active markets. All other plan assets comprise real estate and cash and cash equivalents and are not quoted in active markets. The scheme assets do not include any of the Company's own financial instruments, nor any property occupied by, or other assets of the wider Petroineos Group.

	2021	2020
Actuarial assumptions (expressed as weighted average)		
Discount rate at 31 December	1.6%	1.6%
Rate of price inflation	1.6%	2.8%
Rate of pension increases (in-payment)	1.6%	2.7%
Rate of increase in deferred benefits	1.6%	2.8%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.31 years (male), 24.39 years (female).
- Future retiree upon reaching 65: 23.25 years (male), 25.54 years (female).

The mortality assumption adopts the SAPS S2 pensioner table with a 93%/91% male/female multiplier (2020: SAPS S2 pension table with a 93%/91% male/female multiplier) and CMI 2020 with a long-term improvement rate of 1.25% (2020: CMI 2019 with a long-term improvement rate of 1.25%).

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

21 Post employment benefits (continued)

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting year would have increased/(decreased) as a result of a change in the discount rate and inflation assumptions by 1% and a change in the mortality assumption if all fund members lived for one year longer.

	2021	2020
	£'000	£'000
Discount rate	60,738	59,667
Inflation (RPI, CPI)	18,649	19,316
Mortality	7,670	6,794

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 December 2020 and are applied to adjust the defined benefit obligation at the end of the reporting year for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Funding

The company expects to contribute £5,156,000 to its closed defined benefit scheme in 2022 under a deficit reduction programme. This level of contribution is expected to continue until December 2025. During this period, contributions may be increased if the Company exceeds a series of profit-share financial targets. The recovery plan implemented is expected to address the Plan's funding deficit and achieve full funding on technical provisions assumptions by 31 December 2025, being 5 years from the most recent triennial valuation of 31 December 2020. This valuation recorded the scheme deficit of £38.8 million before adjustment for deferred tax. This equates to a funding level of 85%. Total employer contributions to the scheme, being the base payment and profit-share, would stop when the total payments reach the £38.8 million deficit value.

Defined contribution plans

The Company operates a defined contribution pension plan. The total expense relating to these plans in the current year was £2,471,296 (2020: £2,700,022).

22 Called up share capital

	No. of Shares
Ordinary shares of £0.001	35,000,004
	2021
	£'000
Authorised, allotted, called up and fully paid	
At 1 January and 31 December	35

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

23 Capital commitments

At 31 December 2021, amounts contracted for the acquisition of property, plant and equipment is £23,094,474 (2020: £20,570,253).

24 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

	Sales		Cost recoveries		Expenses incurred	
	2021	2020	2021	2020	2021	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Ineos Group Holdings S.A. Group	-	-	83,444	49,410	185,814	86,655
Petroineos Trading Ltd Group	64,753	217,441	(6)	(26)	23,503	10,684
PetroChina Company Limited Group	-	5,916	11,239	7,039	69,154	37,101
	264,753	223,357	94,677	56,423	258,471	134,440

	Receivables outstanding		Creditors outstanding	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Ineos Group Holdings S.A. Group	1,317	17,994	3,660	3,134
Petroineos Trading Ltd Group	27,382	17,887	20,582	16,394
PetroChina Company Limited Group	30,513	-	-	-
	59,212	35,881	24,242	19,528

Sales to related parties represent the tolling fees charged to Petroineos Trading Limited Group. Expenses incurred from Ineos Group Holdings S.A. group are in relation to support costs for shared infrastructure on the Grangemouth site.

Receivables and creditors outstanding relate to tolling fee transactions with Petroineos Trading Limited Group, cost recharges from Ineos Group Holdings S.A. and consortium relief balances with PetroChina Company Limited Group.

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

25 Controlling parties

Petroineos Refining Limited is the immediate controlling entity and parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements. The ultimate parent undertakings of the company are PetroChina International (London) Company Limited (49.9% shareholding) and Ineos Investments (Jersey) Limited (50.1% shareholding).

Copies of the financial statements of Petroineos Refining Limited can be obtained from the Company Secretary:

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

26 Events after the balance sheet date

Other than Ukraine crisis and inflationary pressure as described in the going concern section, there were no significant post balance sheet events to disclose. Other events after the end of the reporting period have been evaluated up to the date the financial statements were approved and authorised for issue by the Board of Directors and there were no material events requiring adjustment or disclosure in these financial statements.

27 Prior year adjustment

Subsequent to the filing of the Company's annual report and financial statements for the year ended 31 December 2020, the Petroineos Refining Group changed its methodology for assessing the carrying value of its tangible and intangible assets. As a result of this change, the net book value of assets associated with the Grangemouth refinery at 31 December 2020 were found to be in excess of either their value in use or their fair value less costs to sell. Accordingly, the directors have elected to impair the value of tangible and intangible assets and to adjust the deferred tax asset arising from the impairment loss. A summary of adjustments to present a restated balance sheet and profit and loss account is tabulated below.

	£'000
Net assets as previously stated at 31 December 2020	239,980
Impairment of intangible assets	(1,142)
Impairment of tangible assets	(337,200)
Deferred tax effect of the above	<u>64,285</u>
Net adjustment to comprehensive loss for the year	(274,057)
Net liabilities as restated at 31 December 2020	<u>(34,077)</u>