

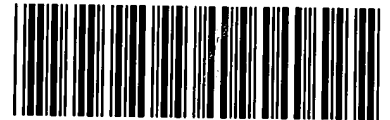
**Petroineos Manufacturing Scotland
Limited**

Annual report and financial statements

Registered number SC 010612

31 December 2020

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Strategic report for the year ended 31 December 2020

The directors present their strategic report on Petroineos Manufacturing Scotland Limited for the year ended 31 December 2020.

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 manufacturing contract.

Safety performance during 2020 was very good. Total employment and contractor injuries were marginally higher than 2019 (although 2019 was an all-time record year). None of the injuries in either year were regarded as serious. Encouragingly, environmental incidents improved during 2020 with fewer reportable events, none of which resulted in a significant loss of containment.

The emergence of the coronavirus pandemic in early 2020 and subsequent lockdowns in Western Europe had a pervasive effect on operations. The refinery recorded good plant availability, but ran at throughput rates that were significantly below capacity as demand for hydrocarbon products in both local and export markets collapsed. To avoid building excess stocks, the Company ran without using all of its three crude distillation units and reduced throughput rates in its other downstream units. Capital expenditure during the year was significantly lower than 2019 in part due to no planned turnaround activity in 2020, but also because projects were cancelled, re-scoped or postponed in the COVID environment. The pandemic also dramatically impacted refining margins and, as a result, the Company did not meet its overall financial target.

The longer-term outlook for European refining remains challenging in the current economic climate. 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 will allow 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 sees limited use for its Fluid Catalytic Cracking Unit (FCCU) and one of its Crude Distillation Units (CDU1). Accordingly, it has taken 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 it expects to incur over 18 months from the balance sheet date. The Company also continues its policy of continuous development, in terms of both its product range and its market reach with a significant volume of road transport fuels now sold into the Northern Ireland market via the Finnart Ocean Terminal.

Strategic report for the year ended 31 December 2020 (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 in place an improvement plan based on the 2014 Solomon benchmarking report, issued in 2015. Following the recently announced 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 tolling agreement with Petroineos Trading Limited the charges levied reflect both the operational performance of the Hydrocracker (HCU) and Fluid Catalytic Cracker (FCCU) and the effectiveness of performing turnarounds on these units and as such management have identified these as a key performance indicator for measurement.

The performance versus targets for 2020 were as follows:

	Target	Actual
Availability % HCU	90.19	94.02
Availability % FCCU	96.47	99.45

Principal risks and uncertainties

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

Risks and uncertainties associated with the COVID-19 pandemic

The directors have separately assessed the risk and uncertainty arising from the COVID-19 pandemic. Pertinent to the continuing business, the Company considers the principal risks to arise from impairment of amounts owed by group undertakings and its ability to continue as a going concern in the event of receiving a call on the amounts the Company owes to Petroineos Refining Limited.

At 31 December 2020, the Company owed £323million (2019: £327 million) to Petroineos Refining Limited. Due to the coronavirus and the resulting weak demand for hydrocarbons, the Company has seen a curtailment in operations and tolling income. However, it expects this to be short-term and has access to sufficient credit facilities held by Petroineos Trading Limited to continue trading for the foreseeable future. Moreover, the Directors have sought assurances, through a letter of support from Petroineos Refining Limited that they will not receive a demand to repay any part of the amount owed to Petroineos Refining Limited that would compromise the ability of the Company to continue as a going concern for at least 12 months from the date of approval of the financial statements.

The Company's main income is from its tolling fee chargeable to Petroineos Trading Limited, where operating costs are recovered with an appropriate mark-up. The fee is then adjusted for operating and commercial metrics. Due to the pandemic, adjustments related to the refinery margins and the carrying value of crude and products have resulted in downward adjustments to tolling fee income. As a result, the Company did not wholly recover its costs during 2020.

Approved and signed on behalf of the board

Russell Mann

Russell Mann
 Director
 15 October 2021

Directors' report for the year ended 31 December 2020

The directors present their report and audited financial statements of the Company for the year ended 31 December 2020.

Principal activities

The Company is engaged in the toll refining of petroleum products under a tolling 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 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 the 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 2020 (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 2020, 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 2020 (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 £89,866,000 (2019: loss of £26,128,000). The directors do not propose the payment of a dividend (2019: £nil).

Future developments

Future developments, including the uncertainties associated with the coronavirus pandemic, 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 2020, the Petroineos Trading Group had access to uncommitted bank credit facilities of \$6,695 million of which \$937 million were utilised in the form of loans and \$1,496 million utilised in the form of letters of credit.

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.

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 2020 (continued)

Directors

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

F Demay	
G Hepburn	Resigned 4 February 2021
Y Luo	Resigned 16 August 2021
R E Mann	
A J Pizzey	Appointed 4 February 2021
G Wang	
Z Wenjin	Appointed 16 August 2021
H Zhang	

Directors liabilities

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 (2019: nil).

Charitable Contributions

The Company made charitable contributions of £2,500 (2019: £3,250).

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.

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.

Directors' report for the year ended 31 December 2020 (continued)

Streamlined Energy and Carbon Reporting (SECR) (continued)

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 2020 was 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 during 2020 was unusually low. This has resulted in lower than normal 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.

	2020
Scope 1: GHG emissions (tCO ₂ e)	1,039,619
Scope 2: GHG emissions (tCO ₂ e)	434,634
Total gross scope 1 & 2 emissions (tCO ₂ e)	1,474,253
GHG intensity ratio (tCO ₂ e/t)	0.24
Energy consumption used to calculate the above emissions:	
Scope 1 (MWh):	3,959,608
Scope 2 (MWh):	1,741,835

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

Refinery reorganisation

During November 2020, the Company announced its intention to resize the Grangemouth refinery, based on a single cracker and two crude distillation units. This initiative will reduce the crude oil throughput capacity of the refinery from over 200,000 barrels per day to approximately 150,000 barrels per day. The reduced capacity is expected to significantly reduce the organisation's carbon footprint from 2021.

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.

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.

Directors' report for the year ended 31 December 2020 (continued)

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.

Independent auditor

KPMG will step down from their role as auditor in 2021 and a new auditor will be appointed.

Approved and signed on behalf of the board

Russell Mann

Russell Mann

Director

15 October 2021

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 Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), 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 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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They 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 group and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of Petroineos Manufacturing Scotland Limited ("the company") for the year ended 31 December 2020 which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes In Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and other management as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue comprises non-complex transactions and is routine in nature.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

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

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

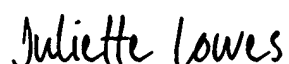
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with 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.



Juliette Lowes (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square
London, E14 5GL

15 October 2021

Profit and Loss Account

for the year ended 31 December 2020

	<i>Note</i>	2020	2019
		£'000	£'000
Turnover	2	209,862	255,168
Cost of sales		(238,314)	(267,419)
Gross loss		(28,452)	(12,251)
Distribution costs		(4,791)	(4,621)
Impairment of tangible assets and inventories	3,4	(44,658)	-
Restructuring costs	4	(2,500)	-
Operating loss	3	(80,401)	(16,872)
Interest payable and similar charges	7	(9,465)	(9,403)
Interest receivable & similar income	8	-	147
Loss before taxation		(89,866)	(26,128)
Tax credit on loss	9	19,590	4,170
Loss for the financial year		(70,276)	(21,958)

All activities of the company relate to continuing operations.

The accompanying notes form part of these financial statements.

Statement of Comprehensive Income

for the year ended 31 December 2020

	<i>Note</i>	2020 £'000	2019 £'000
Loss for the financial year		(70,276)	(21,958)
Other comprehensive income/(expense)			
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial gain/(loss) recognised in the pension scheme	21	15,988	(14,321)
Deferred tax arising on actuarial (gains)/loss in the pension scheme	9,20	(3,038)	2,435
Other comprehensive income/(loss) for the year, net of income tax		12,950	(11,886)
Total comprehensive loss for the year		(57,326)	(33,844)

The accompanying notes form part of these financial statements.

Balance Sheet

At 31 December 2020

	<i>Note</i>	2020	2019
		£'000	£'000
Fixed assets			
Intangible assets	<i>10</i>	5,166	1,746
Tangible assets	<i>11</i>	541,765	608,422
Total Fixed assets		546,931	610,168
Current assets			
Post employment benefits due after more than one year	<i>21</i>	13,009	-
Inventories	<i>12</i>	13,180	24,264
Debtors (including £7.3 million (2019: £7.0 million) due after more than one year)	<i>13</i>	104,038	87,968
Cash at bank and in hand	<i>14</i>	1,065	1,082
Total current assets		131,292	113,314
Creditors: amounts falling due within one year	<i>15</i>	(420,298)	(411,338)
Net current liabilities		(289,006)	(298,024)
Total assets less current liabilities		257,925	312,144
Creditors: amounts falling due after more than one year	<i>16</i>	(15,445)	(7,512)
Provisions for liabilities			
Post employment benefits	<i>21</i>	-	(7,326)
Other provisions	<i>19</i>	(2,500)	-
Net assets		239,980	297,306
Capital and reserves			
Called up share capital	<i>22</i>	35	35
Share premium account		344,631	344,631
Profit and loss account		(104,686)	(47,360)
Total equity		239,980	297,306

These financial statements on pages 14 to 49 were approved by the board of directors on 15 October 2021 and were signed on its behalf by:

Russell Mann

Russell Mann

Director

Company registered number SC 010612

Statement of Changes in Equity

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2019	35	344,631	(13,516)	331,150
Total comprehensive loss for the year				
Loss for the financial year	-	-	(21,958)	(21,958)
Other comprehensive loss	-	-	(11,886)	(11,886)
Total comprehensive loss for the year	-	-	(33,844)	(33,844)
Balance at 31 December 2019	35	344,631	(47,360)	297,306

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2020	35	344,631	(47,360)	297,306
Total comprehensive loss for the year				
Loss for the financial year	-	-	(70,276)	(70,276)
Other comprehensive income	-	-	12,950	12,950
Total comprehensive loss for the year	-	-	(57,326)	(57,326)
Balance at 31 December 2020	35	344,631	(104,686)	239,980

The accompanying notes form part of these financial statements.

Notes (forming part of the financial statements)

1 Accounting policies

Petroineos Manufacturing Scotland Limited (the “Company”) is a company limited by shares, incorporated and domiciled in the UK. The registered office address is Bo’ness Road, Grangemouth, Stirlingshire, FK3 9XH. The Company is exempt by s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These statements present information about the company as an individual undertaking and not about its group.

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international 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;
- The effects of new but not yet effective IFRSs and;
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of 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 IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

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

1.1 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 £289 million as at 31 December 2020 (2018: £298 million net current liability) and a loss for the year then ended of £70 million (2018: £22 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 2020, 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 a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, including the potential impact of COVID-19 on the Company 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. Nevertheless, the Directors expect the long-term outlook to be resilient. 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. COVID-19 continues to affect the business with an increased level of uncertainty as to how the pandemic might evolve over 2021 and into 2022. As a result, there is a higher degree of uncertainty than would usually be the case in making the key judgements and assumptions that underpin the Directors financial forecasts.

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 2020 amounted to £323 million (2019: £327 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.

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

1 Accounting policies (continued)

1.6 Intangible assets

Intangible assets, other than Certified Emissions Reductions (CERs), 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.

Certified Emissions Reductions 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.

1.8 Inventories

Inventories are valued at cost to the Company, mainly using the weighted average method, or net realisable value, whichever is lower. 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)).

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; and
- 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 tolling contract between the two companies. Under the tolling contract, 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

During the year, the Company has participated in the EU 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 emissions permits.

The incentive money due from the EU Emissions 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 Kyoto Protocol sets legally binding targets for cutting emissions and provides for three international “flexible mechanisms” to be used by developed countries in cost effectively meeting their greenhouse gas emissions targets, one of which is the Clean Development Mechanism (“CDM”). This permits industrialised countries to meet part of their commitments through projects in developing countries. The CDM programme provides incentives for the project participants in the form of Certified Emissions Reductions (“CERs”). It is the trading of these CERs that provides the market incentive to reduce emissions. CERs produced from these projects are recorded at nil cost. CERs purchased from third parties are recognised within intangible assets on the basis of purchased cost. The Company recognises the revenue from sale of CERs upon their sale to third parties.

The Company recognises a provision for emissions produced. The provision 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.

Following the UK’s departure from the European Union, “Brexit”, the Company now manages its emissions within the framework of the replacement UK Emissions Trading Scheme (UKETS).

1.17 Changes in accounting policy

There are no amendments or interpretations to accounting policies that apply for the first time in 2020. 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 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2022).
- Amendments regarding replacement issues in the context of the IBOR reform (effective date 1 January 2021).
- Annual Improvements to IFRS Standards 2018–2020 Cycle (effective date 1 January 2022).

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 tolling contract between the companies. Under the tolling contract, 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. There are no contract assets or liabilities outstanding at the end of the year (2019: nil). All amounts due are included in Debtors (note 13).

3 Operating loss

Included in loss are the following:

	2020	2019
	£'000	£'000
Net foreign exchange gain	(76)	(113)
Depreciation of owned assets (note 11)	77,982	68,436
Revaluation of tangible fixed assets (note 11)	(350)	(1,011)
Impairment of tangible fixed assets (notes 4, 11)	41,880	-
Impairment of inventories (notes 4, 12)	2,778	-
Restructuring costs (notes 4, 19)	2,500	-
Amortisation of intangible assets (note 10)	687	246
Amortisation of government grants	(416)	(416)

Auditor's remuneration:

	2020	2019
	£'000	£'000
Audit of these financial statements	83	68

4 Impairment of tangible assets, inventories and restructuring costs

	2020	2019
	£'000	£'000
Impairment of tangible assets (note 11)	41,880	-
Impairment of inventories (note 12)	2,778	-
Restructuring costs (note 19)	2,500	-
	<u>47,158</u>	<u>-</u>

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 sees limited use for its Fluid Catalytic Cracking Unit (FCCU) and one of its Crude Distillation Units (CDU1). Accordingly, it has taken 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 it expects to incur over 18 months from the balance sheet date.

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

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	
	2020	2019
Operations	370	355
Maintenance	186	184
Other – support services	60	60
	<u>616</u>	<u>599</u>

The aggregate payroll costs of these persons were as follows:

	2020	2019
	£'000	£'000
Wages and salaries	35,114	37,867
Social security costs	3,650	4,176
Pension costs - defined contribution plan	2,700	2,567
Pension costs - defined benefit plan (note 21)	728	418
	<u>42,192</u>	<u>45,028</u>

6 Directors' remuneration

The aggregate emoluments of directors:

	2020	2019
	£'000	£'000
Directors' emoluments	208	230
	<u>208</u>	<u>230</u>

The aggregate of emoluments of the highest paid director was £207,966 (2019: £230,000).

No directors had benefits accruing under a defined benefit pension scheme (2019: none).

No other directors received any fees or remuneration for services as a director of the Company during the financial year (2019: none).

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

7 Interest payable and similar charges

	2020	2019
	£'000	£'000
Interest expense on financial liabilities measured at amortised cost	8,881	8,974
Net interest on net defined benefit plan liability (note 21)	103	-
Interest on lease liabilities	479	429
Other interest payable	2	-
Total interest payable and similar charges	9,465	9,403

Interest payable and similar charges include interest payable to group undertakings of £8,880,775 (2019: £8,973,663).

8 Other interest receivable and similar income

	2020	2019
	£'000	£'000
Interest receivable from group undertakings	-	1
Net interest on net defined benefit plan asset (note 21)	-	146
Total interest receivable and similar income	-	147

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

9 Tax on profit

Recognised in the profit and loss account

	2020	2019
	£'000	£'000
<i>UK corporation tax</i>		
Group relief receivable	(13,533)	(5,415)
Adjustment in respect of previous years	(994)	(2,268)
Total current tax credit	(14,527)	(7,683)

Deferred tax (see note 20)

Origination and reversal of temporary differences	(2,340)	1,834
Adjustments in respect of prior years	(490)	1,872
Effective tax rate change on opening balance	(2,233)	(193)
Total deferred tax (credit)/charge	(5,063)	3,513

Tax credit on loss	(19,590)	(4,170)
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Income tax recognised in other comprehensive income

	2020	2019
	£'000	£'000
Deferred tax arising on actuarial (gains)/loss in the pension scheme	3,038	(2,435)
	3,038	(2,435)

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

9 Tax on profit *(continued)*

Reconciliation of effective tax rate

	2020	2019
	£'000	£'000
Total tax credit	(19,590)	(4,170)
Loss before taxation	(89,866)	(26,128)
Loss multiplied by the standard rate of tax in the UK of 19% (2019: 19%)	(17,074)	(4,964)
Expenses not deductible for tax purposes	460	172
Expenditure within RDEC regime	741	1,211
Movement in tax rates in respect of deferred tax	(2,233)	(193)
Adjustments to tax charge in respect of previous periods	(1,484)	(396)
Total tax credit	(19,590)	(4,170)

The standard rate of corporation tax in the UK remained at 19% for the entire duration of the year ended 31 December 2020.

Under legislation enacted in 2016, the UK corporation tax rate of 19% was due to reduce to 17% on 1 April 2020. As a consequence the company measured its recognised deferred tax assets and deferred tax liabilities at 17% as at 31 December 2019. However, legislation was substantially enacted on 17 March 2020 which revoked the reduction to 17% and maintained the corporation tax rate of 19%. Deferred tax on recognised deferred tax assets and deferred tax liabilities has therefore been calculated at a rate of 19% as at 31 December 2020.

The UK Government has announced its intention to increase the rate of corporation tax from 19% to 25% with effect from 1 April 2023. However, as this announcement was not substantially enacted by 31 December 2020, it is not reflected in the recognised deferred tax asset or deferred tax liability balances. If this rate change had been reflected in the net recognised deferred tax asset as at 31 December 2020 it would have increased the net recognised deferred tax asset by £6,406,000.

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

10 Intangible assets

	Environmental Certificates £'000	Other Intangibles £'000	Total £'000
Cost			
At 1 January 2019	10,447	266	10,713
Additions	-	1,879	1,879
Disposals	(10,447)	-	(10,447)
At 31 December 2019	-	2,145	2,145
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
Accumulated amortisation and impairment			
At 1 January 2019	(8,225)	(153)	(8,378)
Disposals	8,225	-	8,225
Amortisation charge	-	(246)	(246)
At 31 December 2019	-	(399)	(399)
At 1 January 2020	-	(399)	(399)
Disposals	-	-	-
Amortisation charge	-	(687)	(687)
At 31 December 2020	-	(1,086)	(1,086)
Net book value			
At 31 December 2019	-	1,746	1,746
At 31 December 2020	4,024	1,142	5,166

Additions in the year relate to carbon allowances. Other intangibles relate to software, including MS Office 2010 upgrade, scheduling tools and associated licencing.

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 2019	164	764,374	120,863	885,401
Additions	5,905	10,903	132,859	149,667
Disposals	-	(106)	(2,293)	(2,399)
Transfers	-	118,134	(118,134)	-
Balance at 31 December 2019	6,069	893,305	133,295	1,032,669
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
Accumulated depreciation and impairment				
Balance at 1 January 2019	-	(356,904)	-	(356,904)
Disposals	-	106	-	106
Depreciation charge for the financial year	(558)	(67,878)	-	(68,436)
Loss on disposal of assets	-	(24)	-	(24)
Revaluation	-	1,011	-	1,011
Balance at 31 December 2019	(558)	(423,689)	-	(424,247)
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	(1,079)	(534,875)	(6,467)	(542,421)
Net book value				
At 31 December 2019	5,511	469,616	133,295	608,422
At 31 December 2020	9,811	433,169	98,785	541,765

The net book value of freehold land and buildings is £9,811,000. 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 £9,795,438 (2019: £8,047,848) and £9,645,865 (2018: £5,346,383) respectively. Depreciation for the year on these assets was £6,929,306 (2019: £5,632,205) and £521,543 (2019: £557,827) respectively. Included in plant and machinery are insurance spares with a net book value of £8,843,557 (2019: £2,041,271). During the year, the Company aligned the valuation of these insurance spares with other plant spares held within inventory. Accordingly, the value of insurance spares increased by approximately £3,598,998 (excluding additions made in the year).

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 2019	-	-	-
Recognition of ROU assets	5,904	13,680	19,584
Balance at 31 December 2019	5,904	13,680	19,584
Accumulated depreciation and impairment			
Balance at 1 January 2019	-	-	-
Disposals	-	-	-
Depreciation charge for the financial year	(558)	(5,632)	(6,190)
Balance at 31 December 2019	(558)	(5,632)	(6,190)
	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)
Net book value			
At 31 December 2019	5,346	8,048	13,394
At 31 December 2020	9,646	9,796	19,442

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

12 Inventories

	2020	2019
	£'000	£'000
Process chemicals	6,283	9,287
Plant spares	6,897	14,977
	<u>13,180</u>	<u>24,264</u>

During the year, an impairment charge of £2,778,000 was made against CDU1 and FCCU related plant spares (note 4). A reclassification to Plant and Machinery took place in the year for insurance spares, with a net book value of £8,843,557 (2019: £2,041,271) being classified under tangible fixed assets (note 11).

The cost of inventories recognised as an expense and included in cost of sales amounted to £1,040,601 (2019: £9,657,351).

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

13 Debtors

	2020	2019
	£'000	£'000
Trade debtors	42	402
Amounts owed by related parties	35,881	31,992
Amounts owed by group undertakings	16,443	9,734
Other debtors	1,773	2,604
Deferred tax (note 20)	20,518	18,493
Prepayments and accrued income	<u>29,381</u>	<u>24,743</u>
	<u>104,038</u>	<u>87,968</u>
Due within one year	96,768	80,976
Due after more than one year	7,270	6,992

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

14 Cash at bank and in hand

	2020	2019
	£'000	£'000
Cash at bank and in hand	<u>1,065</u>	<u>1,082</u>

15 Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Trade creditors	12,690	14,887
Amounts owed to group undertakings	322,687	327,127
Amounts owed to related parties	19,528	8,995
Obligations under leases (note 17)	2,741	5,241
Other creditors	31,781	18,429
Accruals and deferred income	<u>30,871</u>	<u>36,659</u>
	<u>420,298</u>	<u>411,338</u>

16 Creditors: amounts falling due after more than one year

	2020	2019
	£'000	£'000
Obligations under leases (note 17)	<u>15,445</u>	<u>7,512</u>

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

17 Leases

The Company has applied IFRS 16 using the modified retrospective with cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity at 1 January 2019.

Leases as a lessee (IFRS 16)

Right-of-use assets

	Land and Buildings	Plant and Machinery	Total
	£000	£000	£000
At 1 January 2019	-	-	-
Re-classification of assets	-	898	898
Recognition of ROU assets	5,904	12,782	18,686
Depreciation charge for the year	(558)	(5,632)	(6,190)
At 31 December 2019	5,346	8,048	13,394

*Suez plant modifications were accounted for under IAS 17 finance leases prior to 1 January 2019. After 1 January 2019 these are accounted for as Right of Use assets under IFRS 16.

	Land and Buildings	Plant and Machinery	Total
	£000	£000	£000
Balance 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

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

17 Leases (continued)

Changes in lease liabilities

	Lease Liabilities £000
At 1 January 2019	774
Recognition of lease liabilities	18,686
Repayment of borrowings	(6,883)
Interest expense recognised	429
Other lease adjustments and exchange differences	(253)
At 31 December 2019	12,753

	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

Amounts recognised in profit or loss

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

	2020 £000	2019 £000
Leases under IFRS 16		
Interest expense on lease liabilities	479	429
Expenses relating to short-term leases	-	-

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 2020 was 2.9%. The weighted average remaining lease term for leases is 2 years.

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

	2020	2019
	£000	£000
Within 1 year	5,926	5,439
More than 1 year but not later than 5 years	5,833	3,159
More than 5 years	9,752	5,299

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. The agreement specifies that the production schedule at Grangemouth will be based on orders from Petroineos Trading, and that the sites will de facto be dedicated to the agreements.

In consideration for the Petroineos Manufacturing Scotland Limited obligations under the tolling agreement, Petroineos Trading Limited pays a processing fee. This processing fee is calculated based on the fixed, variable and depreciation actual 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.

	2020	2019
	£'000	£'000
Creditors falling due within less than one year		
Intercompany loan	322,670	327,057
	<u>322,670</u>	<u>327,057</u>

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2020 £'000	Carrying amount 2020 £'000	Face value 2019 £'000	Carrying amount 2019 £'000
Intercompany loan	£	2.5% + Libor	2021	322,670	322,670	327,057	327,057
				<u>322,670</u>	<u>322,670</u>	<u>327,057</u>	<u>327,057</u>

19 Other provisions

	Restructuring costs	Total
	2020	2020
	£'000	£'000
Balance at 1 January 2020	-	-
Provisions made during the year	2,500	2,500
Balance at 31 December 2020	<u>2,500</u>	<u>2,500</u>

The Company has recognised a provision in respect of staff redundancy and decommissioning costs of £2,500,000 that it expects to incur over 18 months from the balance sheet date (see 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
	2020	2020	2020
	£'000	£'000	£'000
Tangible fixed assets	2,258	-	2,258
Tax value of loss carry-forwards	20,732	-	20,732
Employee benefits	-	(2,472)	(2,472)
Net tax assets	22,990	(2,472)	20,518

	Assets	Liabilities	Net
	2019	2019	2019
	£'000	£'000	£'000
Tangible fixed assets	5,903	-	5,903
Tax value of loss carry-forwards	11,345	-	11,345
Employee benefits	1,245	-	1,245
Net tax assets	18,493	-	18,493

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

20 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

	1 January 2020	Recognised in income	Recognised in equity	31 December 2020
	£'000	£'000	£'000	£'000
Tangible fixed assets	5,903	(3,645)	-	2,258
Tax value of loss carry-forwards	11,345	9,387	-	20,732
Employee benefits	1,245	(679)	(3,038)	(2,472)
	<u>18,493</u>	<u>5,063</u>	<u>(3,038)</u>	<u>20,518</u>

Movement in deferred tax during the prior year

	1 January 2019	Recognised in income	Recognised in equity	31 December 2019
	£'000	£'000	£'000	£'000
Tangible fixed assets	4,493	1,410	-	5,903
Tax value of loss carry-forwards	15,562	(4,217)	-	11,345
Employee benefits	(484)	(706)	2,435	1,245
	<u>19,571</u>	<u>(3,513)</u>	<u>2,435</u>	<u>18,493</u>

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.

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 £40.9 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 £13.0 million (2019: £7.3 million deficit), which accounts for employee benefits as shown on the balance sheet. 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 2020, while the actuarial deficit was calculated as at 31 December 2017.

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 deficit. The Plan invests within a Liability Driven Investment mandate, this mandate 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.

	2020	2019
	£'000	£'000
Total defined benefit asset	252,793	222,693
Total defined benefit liability	(239,784)	(230,019)
Net asset/(liability) for defined benefit obligations (see following table)	13,009	(7,326)
Total post employment benefits	13,009	(7,326)

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	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January	230,019	195,560	(222,693)	(198,403)	7,326	(2,843)
Included in profit or loss						
Current service cost*	728	418	-	-	728	418
Interest cost/(income)	4,794	5,482	(4,691)	(5,628)	103	(146)
Plan amendments	232	-	-	-	232	-
	5,754	5,900	(4,691)	(5,628)	1,063	272
Included in Comprehensive Income						
Remeasurement gain						
Actuarial (gain)/loss arising from:						
- Changes in demographic assumptions	(436)	9,052	-	-	(436)	9,052
- Changes in financial assumptions	21,740	32,427	-	-	21,740	32,427
- Experience adjustment	(212)	(35)	-	-	(212)	(35)
Return on plan assets excluding interest income	-	-	(37,080)	(27,123)	(37,080)	(27,123)
	21,092	41,444	(37,080)	(27,123)	(15,988)	14,321
Other						
Contributions paid by the employer	-	-	(5,410)	(4,424)	(5,410)	(4,424)
Benefits paid	(17,081)	(12,885)	17,081	12,885	-	-
Balance at 31 December	239,784	230,019	(252,793)	(222,693)	(13,009)	7,326

* 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)

	2020	2019
	£'000	£'000
Plan assets		
Equities (fund manager portfolio)	99,765	90,522
Bonds – Government index-linked	92,823	69,364
Bonds - Corporate	23,533	22,675
Real estate	25,720	26,347
Cash and cash equivalents	2,226	4,321
Other quoted securities	8,726	9,464
	<u>252,793</u>	<u>222,693</u>

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.

	2020	2019
Actuarial assumptions (expressed as weighted average)		
Discount rate at 31 December	1.6%	2.1%
Rate of price inflation	2.8%	2.9%
Rate of pension increases (in-payment)	2.7%	2.8%
Rate of increase in deferred benefits	2.8%	2.9%

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), 24.36 years (female).
- Future retiree upon reaching 65: 23.27 years (male), 25.51 years (female).

The mortality assumption adopts the SAPS S2 pensioner table with a 93%/91% male/female multiplier (2019: SAPS S2 pension table with a 93%/91% male/female multiplier) and CMI 2019 with a long-term improvement rate of 1.25% (2019: CMI 2018 with a long-term improvement rate of 1.25%).

A landmark judgment was reached in the High Court on 26 October 2018 in the Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank Plc Guaranteed Minimum Pension (GMP – a pension benefit in lieu of part of the state pension for persons who were contracted out) equalisation case. A key implication of this case is the need for pension schemes to equalise benefits for the effect of unequal GMPs accrued between May 1990 and April 1997.

The judgment applies to all UK pension schemes who were contracted out of the State Earnings Related Pension Scheme (SERPS) during this period and who provide GMPs, not just the schemes that were the subject of the case. Therefore the Plan (which was contracted out of SERPS) will need to equalise for the effect of unequal GMPs accrued between 1990 and 1997, resulting in an increase to the IAS 19 Defined Benefit Obligation (DBO).

During 2020, the Company estimated that GMP equalisation relating to members that had historically transferred out of the scheme would lead to an increase in the IAS 19 Defined Benefit Obligation of £232,000. This is recorded within the 2020 profit and loss account.

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.

	2020	2019
	£'000	£'000
Discount rate	59,667	57,009
Inflation (RPI, CPI)	19,316	18,429
Mortality	6,794	6,538

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at December 2017 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 £5,373,000 to its closed defined benefit scheme in 2021 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 8 years from the most recent triennial valuation of 31 December 2017. This valuation recorded the scheme deficit of £40.9 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 £40.9 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 £2,700,022 (2019: £2,567,337).

22 Called up share capital

	No. of Shares	
Ordinary shares of £0.001	35,000,004	
	2020	2019
	£'000	£'000
Allotted, called up and fully paid		
At 1 January	35	35
Issued during the year	-	-
At 31 December	35	35

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

23 Capital commitments

At 31 December 2020, amounts contracted for the acquisition of property, plant and equipment is £20,570,253 (2019: £14,744,946).

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	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Ineos Group Holdings S.A.Group	-	-	49,410	52,923	86,655	101,891
Petroineos Trading Ltd Group	217,441	254,628	(26)	7,978	10,684	390
Other related parties	5,916	-	7,039	484	37,101	28,673
	223,357	254,628	56,423	61,385	134,440	130,954

	Receivables outstanding		Creditors outstanding	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Ineos Group Holdings S.A.Group	17,994	11,167	3,134	2,918
Petroineos Trading Ltd Group	17,887	20,825	16,394	6,077
	35,881	31,992	19,528	8,995

During the year, the Company sold EUA carbon allowances to the related party, the Petroineos Trading Group. This transaction is included in the related party sales above, but omitted from turnover in the profit and loss account.

25 Controlling parties

Petroineos Refining Limited is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements. There is no ultimate parent company or ultimate controlling party since *Petroineos Refining Limited* is a joint venture between *INEOS Investments (Jersey) Limited* and *PetroChina International (London) Company Limited*.

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

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

26 Accounting estimates and judgements

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.

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the property, plant and equipment, and note 1 for the useful economic lives for each class of assets.

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 2020 are provided in note 4.

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

26 Accounting estimates and judgements *(continued)*

Impairment of debtors

The Company makes an estimate of the recoverable value of trade and other debtors. As at 1 January 2018, IFRS 9 replaced the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model in assessing the recoverability of trade debtors. The Company reviews the assumptions of the ECL model on an annual basis.

Provisions

Provisions are recognised in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events that can be reasonably estimated. The timing of recognition requires the application of judgement to existing facts and circumstances, which can be subject to change. Estimates of the amounts of provisions recognised are based on current legal and constructive requirements. Actual outflows can differ from estimates due to changes in laws and regulations, and can take place many years in the future where the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes.

The nature and amount of provisions included within the financial statements are detailed in note 19.