Eastham Refinery Limited

Annual Report and Financial Statements

Registered Number 2205902

31 December 2022

Company information

Directors
S Kirkness
A Alvernhe
A Keereweer
A Nilsson
J Bell
M van Hardeveld

Secretary
Shell Corporate Secretary Limited

Auditor
KPMG LLP
8 Princes Parade
Liverpool
L3 1QH

Banker
SEB
1 Carter Lane
London EC4V 5AN

Registered Office
Shell Centre
London SE1 7NA
United Kingdom

Strategic report

The directors present their strategic report and the financial statements for the year ended 31 December 2022.

Principal activity and review of the business

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

Key performance indicators

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

The key targets for the coming year are:

- Target zero total recordable case frequency for personal Safety
- Target zero Tier 1 or 2 Process Safety Incidents
- Minimise incidents that impact on the environment
- Optimise energy consumption per tonne of feedstock processed
- Identify energy improvements that reduce overall energy utilisation
- Deliver the capital investment programme as defined for 2023
- Target 98% Plant Availability (excluding annual shutdown)
- To operate the refinery in as cost-efficient manner as possible, within the regulatory boundaries given by the HSE and EA and the sites reliability targets.

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

The overall safety performance in 2022 was good. There were no serious injuries to personnel, or harm to the environment. There were no RIDDOR reportable incidents that required reporting to the HSE executive due to the potential to cause harm. All emissions were within the regulated limits. The Ukraine invasion and ongoing war impacted the refinery performance in so far that production was reduced to only 53% utilisation and a total throughput of less than half pre pandemic (2019 and before) levels. This resulted in a continued adverse impact to energy efficiency and overall cost efficiency. Overall, within the context of this abnormal environment continued focus was maintained and the refinery operated safely, reliably and within the revised targeted limits.

Strategic report (continued)

Principal risks and uncertainties

Trading risks
The refinery is reliant on demand from both shareholders, who supply crude and other hydrocarbon feedstocks for ERL to process on their behalf, supplying them with their end bitumen and distillate requirements. The Company has a very limited indirect supply risk relating to the supply of heavy crude oil, which in part is required to blend into a number of the end products being produced, due to the tolling arrangement in place.

Crude shipments are being delivered to the refinery via an alternative pipeline, owned by ERL from the QEII docks, owned by Peel Ports, to the ERL refinery at Eastham.

Exchange risks
Exchange rate risk has been considered by the Board. The current operating model of the Company means that there are very limited purchases of supplies in a foreign currency and accordingly the Board does not envisage any significant exchange risks.

Financial risks
ERL is a 50:50 joint venture between Shell UK Limited and Nynas Limited. The Company has access to its own banking facilities which are cash only and provide sufficient working capital for short term business needs. Under the Tolling agreement processing fees are set at levels to produce a target percentage return on capital employed, removing a significant element of overall financial risk.

The current high level of inflation and high Gas and Electricity prices are impacting the Company's costs however due to the tolling agreement the impact is limited. The Directors will continue to monitor these increases and assess any impact on the Company.

Liability risks
The Board have considered other risks, such as environmental and legal claims and are not aware of any claims as at this date. The refinery management team consider all factors that could provide an environmental risk and take the appropriate actions to put safeguards in place.

Tranmere Pipeline
During part of 2022 the Tranmere pipeline was out of service and had been since 2017 with no effect to profitability and minimal effect to cashflow. The two shareholders were responsible for taking actions to support their own business needs, which included providing products through ERL, and for meeting the fixed cost commitments of ERL regardless of pipeline status. In September 2022 ERL agreed a settlement with Essar for termination of the Tranmere Facilities Agreement. This was paid in October 2022. As a result of this the crude held at Tranmere was returned to the refinery and sold to each Shareholder equally at market value. Fixed assets were reduced to reflect the sale with a small amount staying within ERL inventory.

Strategic report (continued)

General business review – Income Statement

Turnover increased by £2.6m in the year to £32.3m (2021 – £29.7m).

During the year the Company made an operating profit of £5.4m (2021 – profit of £3.2m). The result before taxation was a profit of £6.7m (2021 – profit of £2.9m).

The Company made a profit for the financial year, net of taxation of £5.7m (2021 – profit of £1.5m).

Under the tolling agreement entered into as of 1 January 2013, profitability remains stable as feedstocks are purchased by the shareholders and ERL's profitability is based on cost plus a margin applied to achieve a designated return on capital employed.

General business review – Statement of financial position.

Total assets increased during the year by £1.6m to £44.5m (2021 – £42.8m), an increase of 3.7%.

Non-current assets decreased by £0.4m to £30.5m (2021 - £30.9m). Current assets increased by £2.1m mainly due to an increase in inventory of £1m relating to cutter stock returned to the refinery with the termination of the Tranmere Agreement. A decrease of £0.8m in trade and other receivables due to decreased costs recharged to each Shareholder and an increase of £1.7m in cash and cash equivalents due to a build-up of cash reserves obtained from sale of the crude oil.

Total liabilities at the year-end amounted to £10.9m (2021 – £12.4m) a decrease of £1.5m. The movement primarily consisted of a decrease in provisions of £2.8m due the settlement of the Tranmere tank provision and the over purchase of CO2 emissions which resulted in movement to an asset plus an increase of £0.6m in deferred tax liabilities due to changes in future tax rates. An increase of £0.3m in lease liabilities and an increase of £0.5m in trade and other payables.

General business review – statement of cash flows

The overall cash position increased by £1.7m to £8m (2021 balance: £6.3m).

The movement primarily consisted of net inflow of £3.7m from sale of crude oil to each Shareholder and dividend payment of £4m.

There was a net cash inflow from operating activities this year of £4.6m (2021 – £3.5m).

Approved by the Board and signed on its behalf by:

Anna Keereweer

Anna Keereweer

Director

13th September 2023

Registered No. 2205902

Directors' report

The directors present their report and financial statements for the year ended 31 December 2022.

Results and dividends

The profit for the year after taxation amounted to £5.7m (2021 – profit of £1.5m). Dividends of £4.0m were paid in the year. (2021 – £6.0m).

Future developments

Financial risk management objectives and policies and an indication of exposure to financial risk are detailed in note 19. Please refer to the strategic report for details of financial risks and measures implemented by the company as well as additional information on future developments.

Going concern

The Directors have reviewed in detail both internal and external factors affecting the operation and long-term viability of ERL. Forecast information for the period to December 2024 has been reviewed and with the operation of a tolling arrangement business risks are limited.

Process fees are set to produce a target percentage return on capital employed and the Directors can confirm all costs both expected and unexpected will be recovered via the process fee together with the allowed return.

Capital expenditure is set for the year and typically in the region of £2.5m-£3.0m per annum. Depreciation, a non-cash expense, is recovered through the process fee and so generally covers the capital expenditure cash outflow. Dividend payments to Shareholders are made after the allocation of capital expenditure, and after due consideration to the cashflow forecast. Dividends of £2.5m to each shareholder are forecast in the period from the date of signing to 31 December 2024.

The forecasts to 31 December 2024 show that the Company can continue to operate without the need to obtain any external funding or additional shareholder support.

The cash balance at 31 December 2022 was £8m and as at the end of December 2024 the cash balance is forecast to remain positive after having paid a dividend of £4m to shareholders in 2022 and forecast £5m in 2023. The forecast cash position allows for the required capital expenditure and working capital requirements under the tolling model. Sensitivity analysis on a downside forecast demonstrates a limited impact on the overall profitability and liquidity of ERL. This demonstrates that the structure of the tolling agreement, whereby all costs are recharged to the Shareholders, means that major changes in assumptions have a limited impact on the overall result.

In the event of a failure of one of the Shareholders, ERL does not have sufficient cash reserves to cover its own fixed costs for the going concern period to 31 December 2024. A reverse stress test assuming one of the shareholders is unable to pay its invoices shows that the Company has sufficient cash reserves to cover its fixed cost base for a period of twelve months.

Directors' report (continued)

Going concern (continued)

The Directors are aware that Nynas Group have recently published their Annual Report for 2022 which was prepared on a going concern basis despite a number of uncertainties being identified. These uncertainties ranged from the ongoing impact of COVID19, the recovery from sanctions and reorganisation and the impact of the Russian invasion of Ukraine as well as the actions taken already for securing additional financing.

The directors are not aware of any funding issues with its other shareholder, Shell UK Limited, and have made appropriate enquiries in respect of this matter. Further there is no indication from either shareholder that they will not require the use of the tolling facility.

Given the uncertainties identified in the Nynas Group Report, the ERL Directors conclude that in the short-term there are uncertainties in the environment but no uncertainty with regards to the ability of ERL to remain as a Going Concern. On this basis, having reviewed the future profitability and cashflows of ERL, the Directors consider it is appropriate that the accounts be prepared on a Going Concern basis.

Directors

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

R S G Allgulander – Resigned 31st March 2022
G Tonks – Resigned 12th December 2022
A Nilsson
J Bell
S Kirkness
M van Hardeveld
A Keereweer – Appointed 1st April 2022
A Alvernhe – Appointed 12th December 2022

Directors' report (continued)

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' and officers' liability insurance

The Company maintains Directors' and Officers' liability insurance covering the defence costs of civil legal proceedings and the damages resulting from the unsuccessful defence of such proceedings except, in each case, to the extent that a Director or Officer acted fraudulently or dishonestly. This was the same in the financial year ended 31 December 2021.

Political and charitable donations

Charitable donations totalling £900 (2021: £350) were made during the year. There were no political donations made in the current or prior year

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board

Anne Keereweer

A Keereweer
Director

13th September 2023

Statement of directors' responsibilities in respect of the ANNUAL REPORT and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP
8 Princes Parade
Liverpool
L3 1QH
United Kingdom

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

Opinion

We have audited the financial statements of Eastham Refinery Limited ("the Company") for the year ended 31 December 2022 which comprise the Income statement, Statement of comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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.

Independent auditor's report to the members of Eastham Refinery Limited *(continued)*

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 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.

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 the nature of revenue being recharge of costs to shareholders along with a process fee on capital employed.

We also identified a fraud risk related to completeness of costs incurred at period end and inappropriate capitalization of expenses.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included unexpected pairings to revenue apart from intercompany debtors, unexpected pairings to property, plant and equipment, unexpected pairings to cash or borrowings and unexpected pairings to costs other than creditors.
- Evaluated the business purpose of significant unusual transactions.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias, including estimates related to retirement benefit obligations.

Identifying and responding to risks of material misstatement related to 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 through discussion with the directors and others 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.

Independent auditor's report to the members of Eastham Refinery Limited *(continued)*

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 or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law, regulatory capital and liquidity. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management 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.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud 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.

Independent auditor's report to the members of Eastham Refinery Limited *(continued)*

Directors' responsibilities

As explained more fully in their statement set out on page 8, 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.

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.

Peter Short
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Princes Parade
Liverpool,
L3 1QH
13th September 2023

Income statement

for the year ended 31 December 2022

	Notes	2022 £000	2021 £000
Revenue	3	32,295	29,708
Cost of sales		(25,328)	(24,942)
Gross profit		6,967	4,766
Administrative expenses		(1,611)	(1,612)
Operating profit		5,356	3,154
Net finance cost	7	(126)	(207)
Profit on sale of oil		1,485	-
Profit before tax		6,715	2,947
Income tax charge	8	(1,012)	(1,443)
Profit for the financial year		5,703	1,504

All amounts relate to continuing activities.

Statement of comprehensive income

for the year ended 31 December 2022

	2022 £000	2021 £000
Profit for the financial year	5,703	1,504
Items that will not be reclassified to profit and loss		
Remeasurement of pension liability (note 16)	1,917	3,284
Income tax effect (note 8)	(479)	(821)
Total items that will not be reclassified to profit and loss	1,438	2,463
Total comprehensive income	7,141	3,967

The accompanying notes form part of these financial statements.

Statement of financial position
at 31 December 2022

	Notes	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	9	26,320	28,533
Employee benefit surplus	16	1,508	-
Right of use assets	17	2,662	2,381
		30,490	30,914
Current assets			
Inventories	11	1,701	703
CO_2 emissions	15	166	-
Trade and other receivables	10	4,116	4,904
Cash and cash equivalents	12	8,002	6,305
		13,985	11,912
Total assets		44,475	42,826
Current liabilities			
Trade and other payables	14	(2,311)	(1,886)
Provisions	15	-	(763)
Lease liabilities	17	(19)	(5)
Income tax payable		(552)	(351)
		(2,882)	(3,005)
Non-current liabilities			
Provisions	15	-	(2,000)
Employee benefit surplus	16	-	(262)
Lease liabilities	17	(2,818)	(2,516)
Deferred tax liabilities	8(c)	(5,191)	(4,600)
		(8,009)	(9,378)
Total liabilities		(10,891)	(12,383)
Net assets		33,584	30,443
Equity			
Share capital	18	16,000	16,000
Retained earnings		17,584	14,443
Total equity		33,584	30,443

The accompanying notes form part of these financial statements.

Approved by the board on 13th September 2023 and signed on its behalf by:

Anne Keereweer

A Keereweer
Director

Statement of changes in equity

for the year ended 31 December 2022

	Share capital £000	*Retained earnings £000*	*Total equity £000*
At 1 January 2021	16,000	16,476	32,476
Profit for the year	-	1,504	1,504
Other comprehensive income net of tax	-	2,463	2,463
Dividends	-	(6,000)	(6,000)
At 31 December 2021	16,000	14,443	30,443
Profit for the year	-	5,703	5,703
Other comprehensive income net of tax	-	1,438	1,438
Dividends	-	(4,000)	(4,000)
At 31 December 2022	16,000	17,584	33,584

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 31 December 2022

	Notes	2022 £000	2021 £000
Operating activities			
Profit for the year		5,703	1,504
Adjustments to reconcile profit for the year to net cash Inflow from operating activities:			
Depreciation, amortisation and impairment		1,847	2,077
Depreciation of right of use assets		66	62
Loss on disposal of property, plant and equipment		9	64
Profit on sale of oil		(1,485)	-
Net finance cost		126	207
Taxation charge		1,012	1,443
Operating profit before changes in working capital and provisions		7,278	5,357
Decrease/(increase) in trade and other receivables		788	(2,375)
(Increase)/decrease in inventories		(417)	(164)
Increase/(decrease) in trade and other payables		421	(507)
(Decrease)/increase in provisions and employee benefits		(2,781)	1,596
Cash generated from the operations		5,289	3,907
Income tax paid		(700)	(434)
Net cash inflow from operating activities		4,589	3,473
Cash flows used in investing			
Interest received		47	-
Acquisition of property, plant and equipment		(2,434)	(1,880)
Net proceeds from sale of oil		3,699	-
Net cash flows used in investing activities		1,312	(1,880)
Cash flows used in financing activities			
Dividends		(4,000)	(6,000)
Payment of lease liabilities		(204)	(180)
Net cash outflows used in financing activities		(4,204)	(6,180)
Net increase in cash and cash equivalents		1,697	(4,587)
Cash and cash equivalent at 1 January		6,305	10,892
Cash and cash equivalents at 31 December	12	8,002	6,305

The accompanying notes form part of these financial statements.

Notes to the financial Statements

at 31 December 2022

1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of Eastham Refinery Limited for the year ended 31 December 2022 were authorised for issue by the board of directors on 13th September 2023 and the Statement of Financial Position was signed on the board's behalf by A Keereweer. Eastham Refinery Limited is a private company limited by shares and incorporated and domiciled in the UK. The Company's principal activities are set out in the Strategic Report.
The Company's financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The principal accounting policies adopted by the Company are set out in note 2.

The financial statements are presented in Sterling, which is also the functional currency of the Company, and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

2. Accounting policies

2.1 Basis of preparation

The financial statements are prepared in accordance with applicable accounting standards.

Going concern

The Directors have reviewed in detail both internal and external factors affecting the operation and long-term viability of ERL. Forecast information for the period to December 2024 has been reviewed and with the operation of a tolling arrangement business risks are limited.

Process fees are set to produce a target percentage return on capital employed and the Directors can confirm all costs both expected and unexpected will be recovered via the process fee together with the allowed return.

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The forecasts to 31 December 2024 show that the Company can continue to operate without the need to obtain any external funding or additional shareholder support.

The cash balance at 31 December 2022 was £8m and as at the end of December 2024 the cash balance is forecast to remain positive after having paid a dividend of £4m to shareholders in 2022 and forecast £5m in 2023. The forecast cash position allows for the required capital expenditure and working capital requirements under the tolling model. Sensitivity analysis on a downside forecast demonstrates a limited impact on the overall profitability and liquidity of ERL. This demonstrates that the structure of the tolling agreement, whereby all costs are recharged to the Shareholders, means that major changes in assumptions have a limited impact on the overall result.

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued)

In the event of a failure of one of the Shareholders, ERL does not have sufficient cash reserves to cover its own fixed costs for the going concern period to 31 December 2024. A reverse stress test assuming one of the shareholders is unable to pay its invoices shows that the Company has sufficient cash reserves to cover its fixed cost base for a period of twelve months.

The Directors are aware that Nynas Group have recently published their Annual Report for 2022 which was prepared on a going concern basis despite a number of uncertainties being identified. These uncertainties ranged from the ongoing impact of COVID19, the recovery from sanctions and reorganisation and the impact of the Russian invasion of Ukraine as well as the actions taken already for securing additional financing.

The directors are not aware of any funding issues with its other shareholder, Shell UK Limited, and have made appropriate enquiries in respect of this matter. Further there is no indication from either shareholder that they will not require the use of the tolling facility.

Given the uncertainties identified in the Nynas Group Report, the ERL Directors conclude that in the short-term there are uncertainties in the environment but no uncertainty with regards to the ability of ERL to remain as a Going Concern. On this basis, having reviewed the future profitability and cashflows of ERL, the Directors consider it is appropriate that the accounts be prepared on a Going Concern basis.

2.2 Changes in significant accounting policies

A number of new standards are effective from 01 January 2022 but they do not have material effect on the Company's financial statements

New and revised IFRS standards in issue but not yet effective

Revisions to the following standards are issued but not yet effective:

a) IFRS 17 Insurance Contracts and amendments to IFRS 17 - Effective date 01 January 2023
b) Classification of liabilities as current or non-current (Amendments to IAS 1) - Effective date 01 January 2023
c) Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) - Effective date 01 January 2023
d) Definition of Accounting Estimate (Amendments to IAS 8) - Effective date 01 January 2023
e) Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12 Income taxes) - Effective date 01 January 2023
f) Initial application of IFRS 17 and IFRS 9 – Comparative information (Amendments to IFRS 17) - Effective date 01 January 2023
g) Lease liability in a sale and leaseback (Amendments to IFRS 16) - Effective date 01 January 2023

2. Accounting policies (continued)

2.2 Changes in significant accounting policies (continued)

New and revised IFRS standards in issue but not yet effective (continued).

h) Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 Consolidated financials statements and IAS 28 Investments in associates and joint ventures)

None are expected to have a material impact on the Company's financial statements in the period of initial application.

2.3 Judgements and key sources of estimation uncertainty

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

Key Estimates

Retirement benefit obligations

The nature of the process for valuing retirement benefit obligations for defined benefit schemes means that the calculations and the resulting deficits are estimates only. The actuarial valuation involved making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

In the opinion of the Directors, the surplus recognised are the best estimates based on information available at the date of approving these financial statements. The carrying amount of the net retirement benefit obligations at the reporting date was a surplus of £1.5m (2021: £0.3m deficit) which in the opinion of the Directors reflects the appropriate value to recognise in the financial statements. See note 16 for further details.

A non-legal review of the Scheme's rules has been carried out by management and their advisers Barnett Waddingham. The conclusion of this assessment was that the sponsor has an unconditional right to the surplus under IFRIC14, which is based on the circumstances under which the Scheme would commence wind-up and the return of funds which would be payable to the company following the priority order set out in the Trust Deed and Rules. As a result, no adjustments to the surplus have been made under these disclosures.

Maximum economic benefit available

A non-legal review of the Scheme's rules has been carried out by management and their advisers Barnett Waddingham. The conclusion of this assessment was that the sponsor has an unconditional right to the surplus under IFRIC14 in the form of a refund payable on wind-up.

2. Accounting policies (continued)

2.3 Judgements and key sources of estimation uncertainty (continued).

Description of other entities

The Scheme is managed by a board of Trustees appointed in part by the Company and in part from elections by members of the Scheme. The Trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustees delegate some of these functions to their professional advisers where appropriate.

Description of risks

The Scheme exposes the Company to a number of risks:

- Investment risk. The Scheme holds investments in asset classes, such as equities, which have volatile market values and, while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if deficits emerge.
- Interest rate risk. The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities, the value of the assets and liabilities may not move in the same way.
- Inflation risk. A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.
- Mortality risk. In the event that members live longer than assumed, deficits may emerge in the Scheme.

The value placed on the Scheme's liabilities reduced by approximately £11 million as a result of the increase in bond yields over the period.

The Scheme implemented changes to its investment strategy over the period, so it is difficult to isolate and quantify the impact of changes in gilt yields. However, as the Scheme did not fully hedge the interest rate risk, it is expected that the liabilities fell by more than the assets.

The Trustees apply discretionary increases to non-GMP earned before 1997 and it is assumed that this practice continues when calculating the defined benefit obligation calculated for IAS19 purposes.

The Scheme holds a proportion of its assets in Liability Driven Investment, which aims to hedge a proportion of the Scheme's interest rate and inflation risks. The Liability Driven Investment is held in pooled funds. The Scheme did not experience liquidity issues during the recent market events.

The sponsor was not required to support any collateral calls on the Scheme.

2. Accounting policies (continued)

2.3 Judgements and key sources of estimation uncertainty (continued).

Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the joint venture parent entities stand-alone credit ratings). The IBR determined as at 31 December 2022 was 6.67%. (2021 – 6.67%)

Useful Economic Life

The remaining life of the refinery complex is reassessed by the directors every five years. Following each such reassessment the net book value of the assets at that date is depreciated over the remaining useful economic life on a straight-line basis.

2.4 Summary of significant accounting policies

Revenue recognition
The Company has two contracts with customers, both of whom are shareholders, that results in all of the fixed and variable costs incurred by the Company being recharged to the customers at cost plus a pre agreed return on capital employed.

Revenue is derived from recharge of costs plus a pre-agreed percentage of capital employed. The fair value of the revenue can be measured reliably as the value of the costs incurred and the agreed percentage of working capital. Performance obligations are considered to be the running of the refinery under the Tolling arrangement. The revenue is allocated against the performance obligations as the costs to operate the refinery are incurred. Invoices are payable on the 15 of the month following invoice date.

The determination of revenue is considered to not contain any judgements as the calculation is non-complex and revenue does not contain any variable elements of consideration.

Measurement convention
The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value

a) Provisions and
b) Defined benefit assets and liabilities

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Foreign currencies

The financial statements are expressed in pounds sterling, which is the functional currency of the Company and the presentation currency for the financial statements. In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the

Foreign currencies (continued)

transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary

items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

Property, plant and equipment

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

The remaining life of the refinery complex is reassessed by the directors every five years. Following each such reassessment the net book value of the assets at that date is depreciated over the remaining useful economic life on a straight-line basis. Subsequent additions are depreciated over the reassessed remaining useful economic life of the refinery complex. The last revision of the remaining life of the refinery was performed as at 1 January 2018 when the directors reassessed their estimate of the remaining useful economic life of these assets at twenty years from that date.

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

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

Assets in the course of construction are not depreciated.

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

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right of use assets:

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant and machinery 20 years
- Motor vehicles and other equipment 5 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

ii) Lease Liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments)

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Financial assets

Initial recognition and subsequent measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Company only holds financial assets that are classified as loans and receivables and are measured at amortised cost. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

(a) the Company has transferred substantially all the risks and rewards of the asset, or

(b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Financial assets (continued)
When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement.

Impairment of financial assets
Further disclosures relating to impairment of financial assets are also provided in the note 10.

As permitted by IFRS 9, for trade receivables, the Company applies a simplified approach in calculating Expected Credit Losses (ECL). Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has two customers, both of whom are shareholders. The Company has never recorded any impairment on the trade receivable since the tolling arrangement commenced and the expected credit loss and lifetime impairment loss has therefore been assessed to be highly immaterial. Accordingly, no ECL has been provided considered to be required as at 31 December 2022. The directors will continue to monitor any changes in the ECL.

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

Cash and cash equivalents
Cash and cash equivalents are comprised of cash balances only.

Impairment of non-financial assets
The carrying amounts of the Company's assets are reviewed at each year end date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

If, in a subsequent period, the amount of the impairment loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date of impairment is reversed does not exceed what the amortised cost would had been had the impairment not been recognised.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Other financial liabilities, including trade and other payables, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at

amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying value of the financial liability.

Financial liabilities are derecognised when, and only when, the Company's obligations are discharged, cancelled or they expire.

Trade and other payables

Trade payables are recognised and carried at their original invoiced value. Where the time value of money is material, payables are carried at amortised cost.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

De-recognition of financial liabilities

Financial liabilities are derecognised when, and only when, the Company's obligations are discharged, cancelled or they expire.

Income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Deferred taxation

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

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

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

The carrying value of deferred income tax assets is reviewed at each year end date.

Employee benefits

Defined benefit plans

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

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

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

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Employee benefits (continued)
Defined contribution scheme

On 31 December 2014 the Defined benefit scheme was closed to new members. New employees joining the scheme as at 1 January 2015 are automatically enrolled in the Legal and General Group Personal Pension defined contribution scheme. The Company contributed £116k to the scheme in 2022 (2021-£83k). There are currently 24 members.

Provisions
General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability.

Dilapidation provision

A provision was recognised in respect of future dilapidation costs required under the lease agreement at the present value of the expected costs to settle the obligation using estimated cash flows. This provision was settled in full in October 2022.

Greenhouse gas emissions

The Company receives free emission rights in certain European countries as a result of the European Emission Trading Schemes. The rights are received on an annual basis and, in return, the Company is required to remit rights equal to its actual emissions. The Company has adopted the net liability approach to the emission rights granted. Therefore, a provision is recognised only when actual emissions exceed the emission rights granted and still held. The emission costs are recognised as other operating costs. Where emission rights are purchased from other parties, they are recorded at cost, and treated as a reimbursement right, whereby they are matched to the emission liabilities and remeasured to fair value. The changes in fair value are recognised in the income statement.

Net financing costs
Net financing costs comprise interest payable and interest receivable on funds invested. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

3. Revenue

Turnover represents the amounts derived from the provision of services which fall within the Company's ordinary activities, stated net of value added tax. Under IFRS 15, the consideration received from the customer is fixed (being the costs incurred plus the pre agreed percentage of working capital) and accordingly no variable consideration is recorded.

The Company has one revenue stream, being the recharge of costs of operating the refinery to the two shareholders and accordingly no disaggregation of revenue is presented. All of the Company's revenue is derived from the UK.

All of the Company's performance obligations were satisfied in the year ended 31 December 2022 and 2021 and as at the year-end date, no contract assets or liabilities are present (2021: no contract assets or liabilities).

4. Operating profit

This is stated after charging:

	2022	*2021*
	£000	*£000*
Auditor's remuneration:		
Amounts receivable by the auditor in respect of:		
Audit of these financial statements	95	85
Loss on disposal of property, plant and equipment	9	64
Depreciation of property, plant, equipment and ROU Assets	1,913	2,139

5. Directors' remuneration

None of the directors received any remuneration or pension contributions during the year (2021 – £nil). The directors are employed and remunerated by Nynas UK AB, Nynas AB, Shell International Petroleum Co Ltd and Shell Netherlands Refinery B.V. The value of services performed by the directors in respect of the Company amount to £12k. (2021 – £9k).

6. Staff costs

	2022	2021
	£000	£000
Wages and salaries	2,869	2,730
Social security costs	306	284
Other pension costs	868	911
	4,043	3,925

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

	No.	No.
Production	42	45
Administration	1	1
	43	46

The directors are listed on page 6.

7. Net Finance cost.

	2022 £000	2021 £000
Interest expense – Lease Liabilities (note 17)	(173)	(165)
Interest Income	47	-
Expected net return on defined benefit pension plan (note 16)	-	(42)
	(126)	(207)

8. Income tax

(a) Income tax on profit

Income tax charged in the income statement

	2022 £000	2021 £000
Current tax:		
UK corporation tax	1,072	444
Adjustment for prior years	(172)	(8)
Total current income tax	900	436
Deferred tax:		
Reversal of timing difference	112	1,007
Total income tax charge in the income statement	1,012	1,443

(b) Reconciliation of the total income tax charge

The income tax expense in the income statement for the year differs from the standard rate of corporation tax in the UK of 19% (2021 – 19%). The differences are reconciled below:

	2022 £000	2021 £000
Profit before taxation	6,715	2,947
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2021 – 19%)	1,276	560
Effects of:		
Non-deductible expenses	(204)	(116)
Reversal of timing differences	112	1,007
Adjustment for prior years	(172)	(8)
Total income tax charge in the income statement	1,012	1,443

8. Income tax (continued)

(c) Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2022	*2021*
	£000	*£000*
Property, plant and equipment	(4,805)	(4,633)
Employee benefits	(386)	33
	(5,191)	(4,600)

Movement in deferred tax during the year:

	At 1 January 2022	Recognised in income statement	Recognised in OCI	At 31 December 2022
	£000			
Property, plant and equipment	(4,633)	(172)	-	(4,805)
Employee benefits	33	60	(479)	(386)
	(4,600)	(112)	(479)	(5,191)

(d) Factors that may affect future tax charges

The standard rate of corporation tax applied to reported profit is 19% (2021: 19%) following the substantive enactment of the Finance Act 2017. The UK government latest legislation sets the headline rate of UK corporation tax at 19%. An increase in the UK corporation tax rate from 19% to 25% (effective 01 April 2023) was substantively enacted on 24 May 2021. The deferred tax assets and liabilities at 31 December 2022 have been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

Deferred tax on the Pension surplus has been calculated at 25%. It is presumed that the theoretical utilisation of the surplus will unwind with future reduced company contributions over the lifetime of the scheme, rather than a one-off cash reimbursement which would attract an increased tax rate of 35%.

9. Property, plant and equipment

	Land and buildings £000	Plant, equipment and vehicles £000	Under construction £000	Total £000
Cost or valuation:				
At 1 January 2021	500	68,567	951	70,018
Additions	-	-	1,866	1,866
Transfers	-	2,443	(2,443)	-
Disposals	-	(319)	-	(319)
At 31 December 2021	500	70,691	374	71,565
Additions	-	-	2,438	2,438
Transfers	-	561	(561)	-
Disposals	-	(4,991)	-	(4,991)
At 31 December 2022	500	66,261	2,251	69,012
Depreciation:				
At 1 January 2021	434	40,776	-	41,210
Depreciation charge for the year	4	2,073	-	2,077
Disposals	-	(255)	-	(255)
At 31 December 2021	438	42,594	-	43,032
Depreciation charge for the year	4	1,843	-	1,847
Disposals	-	(2,187)	-	(2,187)
At 31 December 2022	442	42,250	-	42,692
Net book value:				
At 31 December 2022	58	24,011	2,251	26,320
At 31 December 2021	62	28,097	374	28,533

Security

No assets are pledged as security. (2021 – Nil).

Property, plant and equipment under construction

At 31 December 2022 assets in the course of construction comprised plant and equipment of £2.3m (2021 – £374k)

10. Trade and other receivables

	2022	2021
	£000	£000
Trade receivables due from related parties (note 22)	1,527	3,300
VAT	257	-
Other receivables and prepayments	2,332	1,604
	4,116	4,904

Included in trade and other receivables is £nil (2021 – £nil) expected to be recovered in more than 12 months. No amounts are past due or impaired. The carrying value of the trade and other receivables equates to their fair value.

No Expected Credit Loss (ECL) is recorded as at 31 December 2022 or 31 December 2021 as all of the trade receivables are due from shareholders which are settled on time.

11. Inventories

	2022	2021
	£000	£000
Finished goods	1,701	703
	1,701	703

Included within inventories is £nil (2021 – £ nil) expected to be recovered in more than 12 months.

Inventories to the value of £206k were recognised as expenses in the year (2021– £130k).

12. Cash and cash equivalents/bank overdrafts

	2022	2021
	£000	£000
Cash and cash equivalents per statement of financial position:	8,002	6,305
Cash and cash equivalents per statement of cash flows	8,002	6,305

13. Interest-bearing loans and borrowings.

Terms and debt repayment Schedule
There are no external third-party loans in the current year (2021: £nil).

14. Trade and other payables

	2022 £000	2021 £000
Trade payables due to related parties (note 22)	211	338
Other trade payables	397	571
VAT	-	3
Non-trade payables and accrued expenses	1,703	974
	2,311	1,886

Trade and other payables of £2m are due for payment within 30 days. (2021: £1.8m payable within 30 days).

15. Provisions

	Tank dilapidation costs £000	*CO2 emission £000*	*Total £000*
At 1 January 2021	1,092	265	1,357
Utilised in the year	-	(359)	(359)
Arising in the year	643	857	1,500
Unwinding of provision and change in discount rate	265	-	265
At 31 December 2021	2,000	763	2,763
Arising in the year	-	311	311
Utilised in the year	(2,000)	(1,240)	(3,240)
Unwinding of provision and change in discount rate	-	-	-
At 31 December 2022	-	(166)	(166)
Analysed as:			
Current	-	(166)	(166)
Non-current	-	-	-
	-	(166)	(166)

In September 2022 ERL agreed a settlement with Essar for termination of the Tranmere Facilities Agreement. This was paid in October 2022. As a result of this the crude held at Tranmere was returned to the refinery and sold to each Shareholder equally at market value. Fixed assets were reduced to reflect the sale with a small amount staying within ERL stock.

15. Provisions (continued)

A debit provision of £166k (2021– £763k credit) is recognised in the year as a result of the Company's obligations to acquire additional carbon dioxide omission credits. CO2 emissions were lower than anticipated resulting in an over purchase of allowance. The provision is undiscounted and shown as due to be reclaimed within the next financial year.

16. Employee benefits

Pension plans
The Company operates both a defined contribution and a defined benefit pension scheme.

Defined Contribution Scheme
The company operates a defined contribution scheme, The pension cost charged for the year was £116k (2021: £83k).

Defined Benefit Scheme
The Company operates a defined benefit pension scheme providing benefits based on final pensionable pay. The latest full actuarial valuation was carried out on 31 March 2020.

(a) Summary

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

	2022	*2021*
	£000	*£000*
Present value of funded defined benefit obligations	(17,663)	(29,150)
Fair value of plan assets	19,171	28,888
Net obligations	1,508	(262)
Employee benefits surplus/(deficit)	1,508	(262)

	2022	*2021*
	£000	*£000*
At 1 January	(29,150)	(29,784)
Current service cost	(621)	(695)
Interest cost	(543)	(394)
Experience gain on liabilities	94	-
Changes to demographic assumptions	(13)	(118)
Changes to financial assumptions	11,470	564
Benefits paid	1,205	1,392
Contributions by members	(105)	(115)
At 31 December	(17,663)	(29,150)

16. Employee benefits (continued)

Movement in fair value of plan assets

	2022	2021
	£000	£000
At 1 January	28,888	26,471
Expected return on plan assets	543	352
Remeasurement (loss)/gain	(9,634)	2,838
Contributions by employer	605	637
Contributions by members	105	115
Administration costs	(131)	(133)
Benefits paid	(1,205)	(1,392)
At 31 December	19,171	28,888

i. Expense recognised in the income statement

	2022	2021
	£000	£000
Current service cost	621	695
Administration costs	131	133
Interest on defined benefit pension plan obligation	543	394
Return on defined benefit pension plan assets	(543)	(352)
	752	870

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

	2022	2021
	£000	£000
Cost of sales	(752)	(828)
Net Finance (expense)/income	-	(42)
	(752)	(870)

ii. Expense recognised in the statement of other comprehensive income:

	2022	2021
	£000	£000
Remeasurement of pension liability	1,917	3,284
	1,917	3,284

16. Employee benefits (continued)

iii. The fair value of the plan assets

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

	Fair value	
	2022	*2021*
	£000	*£000*
UK Equities	1,979	5,322
Overseas Equities	4,619	12,418
Diversified Growth Fund	6,857	-
LDI	4,270	-
Gilts	-	7,777
Absolute Return Bond Fund	1,182	-
Corporate Bonds	-	3,242
Other	264	129
	19,171	28,888
Return on plan assets	9,634	(2,838)

The actual rate of return on plan assets was 47.42% (2021 – 11.04%). The expected rates of return on plan assets are determined by reference to relevant indices. The overall rate of return is calculated by a single interest component, based on the discount rate. All invested assets in the scheme are unquoted. The asset allocation is a change from that adopted by the Scheme at the previous year-end, following investment strategy work carried out over 2022.

The scheme does not hold direct UK or overseas equities, it is held in the form of fund with LGIM.

Principal actuarial assumptions (expressed as weighted averages)

		2022	*2021*
		%	*%*
Discount rate		4.80	1.90
Future salary increases		3.15	3.35
Price inflation		3.15	3.35
Post retirement mortality for pensioners at 65:			
	– Male	21.8	21.7
	– Female	24.2	24.1

Covid

Since last year, a new parameter has been introduced by the CMI to allow users to specify the weight to be placed on 2021 data, in addition to a 2020 weight parameter, to reflect the ongoing effects of the COVID 19 pandemic on mortality data. Due to the unknown long-term effects of COVID 19, the mortality projection assumptions adopted have taken only partial allowance of 2020 and 2021 mortality data.

16. Employee benefits (continued)

The assumption adopted for the weight parameters was chosen to be broadly equivalent to the weight parameter adopted last year i.e., to maintain best estimate assumptions. Actuarial advice was taken on the assumptions adopted.

iv. History of experience gains and losses

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

	2022	2021
	£000	£000
Present value of defined benefit obligation	(17,663)	(29,150)
Fair value of plan assets	19,171	28,888
Pension surplus/(deficit)	1,508	(262)

Experience adjustments

	2022	2021
	£000	£000
Experience adjustments on plan liabilities (£000)	(94)	0
Percentage of defined benefit obligation (%)	(0.53)%	0%
Experience adjustments on plan assets (£000)	9,634	(2,838)
Percentage of scheme assets (%)	50.25%	(9.82)%

The Company expects to contribute approximately £576k to its defined benefit plan in the next financial year. (2021 - £634k).

v. Maturity profile of Defined Benefit Obligation

	£000
Expected benefit payments during fiscal year ending 31 December 2023	893,000
Expected benefit payments during fiscal year ending 31 December 2024	836,000
Expected benefit payments during fiscal year ending 31 December 2025	902,000
Expected benefit payments during fiscal year ending 31 December 2026	929,000
Expected benefit payments during fiscal year ending 31 December 2027	953,000
Expected benefit payments during fiscal year ending 31 December 2028 through 31 December 2032	5,261,000

16. Employee benefits (continued)

17. The weighted average duration of the defined benefit obligation is 14 years. The duration of the Scheme's liabilities fell from around 18 years to 14 years over the period. The fall in duration is a result of the significant increase in bond yields over the year.

i. Sensitivity analysis

Assumption	*Change in assumption*	*Impact on plan liabilities*
Discount rate	Increase / decrease by 0.5% per annum	Decrease by 7% / increase by 8%
Life expectancy	Increase / decrease by one year	Increase by 3% / decrease by 3%

ii. Changes to the Scheme

There were no changes to the Scheme in 2022.

17. Lease liabilities and right of use assets

Company as a lessee

The Company has lease contracts for various items of plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms of 20 years, while motor vehicles and other equipment generally have lease terms of 5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets and some contracts require the Company to maintain certain financial ratios.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Plant and Machinery	Other equipment	Total
	£000	*£000*	*£000*
Costs			
As at 1 January 2021	2,541	25	2,566
Additions	-	-	-
As at 31 December 2021	2,541	25	2,566
Additions	327	20	347
As at 31 December 2022	2,868	45	2,913
Depreciation			
As at 1 January 2021	(109)	(14)	(123)
Depreciation expense	(56)	(6)	(62)
As at 31 December 2021	(165)	(20)	(185)

17. Lease liabilities and right of use assets (continued)

Depreciation expense	(60)	(6)	(66)
As at 31 December 2022	(225)	(26)	(251)
Net Book Value			
As at 31 December 2022	2,643	19	2,662
As at 31 December 2021	2,376	5	2,381

The carrying amounts of lease liabilities and the movements during the period are set out below.

	2022	2021
	£000	£000
As at 1 January	2,521	2,536
Additions	347	-
Accretion of interest	173	165
Payments	(204)	(180)
As at 31 December	2,837	2,521
Current	19	5
Non-Current	2,818	2,516

The following are the amounts recognised in the profit and loss

	2022	2021
	£000	£000
Depreciation expense of right-of-use assets	66	62
Interest expense on lease liabilities	173	165
Total amount recognised in the profit or loss	239	227

18. Issued share capital

		2022		*2021*
Authorised, allotted, called up and fully paid	*No.*	*£000*	*No.*	*£000*
Ordinary shares of £1 each	16,000,000	16,000	16,000,000	16,000

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

19. Financial instruments

The accounting classification of each category of financial instruments, and their carrying values, is set out below:

	2022	2021
Financial assets	*£000*	*£000*
Loans and receivables		
Cash at bank	8,001	6,305
Trade and other receivables	2,338	3,762
	10,339	10,067
Financial liabilities		
Amortised cost		
Lease liabilities	2,837	2,521
Trade and other payables	2,311	1,886
	5,148	4,407

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 2.

The fair value of financial instruments represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The directors consider that the carrying amount of cash at bank and receivables and other financial liabilities approximates their fair value.

Interest rate risk
Bank interest received is £47k (2021 – £nil). The Company has no loans and borrowings therefore the interest rate is £nil.

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

19 Financial instruments (continued)

	Effective interest rate %	Total £000	2022 0 to < 1 years £000	1 – 2 years £000
Cash at bank	0.00	8,001	8,001	-
		8,001	8,001	-

	Effective interest rate %	Total £000	2021 0 to < 1 years £000	1 – 2 years £000
Cash at bank	0.00	6,305	6,305	-
		6,305	6,305	-

Credit risk
The Company has limited exposure to credit risk as all sales are to related parties. All financial statements receivables are current, there are no expected credit loss adjustments to be made and there are no amounts past due that require impairment (2021 – £nil). No collateral is held with respect to financial assets.

Foreign currency risk
Since the move to tolling in 2013, the foreign exchange risk has significantly reduced given the reduction in the foreign exchange transactions.

Sensitivity analysis
Managing interest rates has been eliminated due to a zero-interest sterling bank account. The impact in 2022 is therefore £nil (2021 – £nil).

Liquidity risk
The Company monitors cash flow requirements on a daily basis and ensures it has sufficient cash to meet expected expenses. In extreme circumstances that cannot be predicted, financial arrangements from the parent companies can be reviewed.

The Company maintains no additional lines of credit.

Fair values
The fair values of the Company's cash equate to their respective book values.

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

20. Capital commitments

During the year ended 31 December 2022, the Company entered into a contract to purchase property, plant and equipment for £6k (2021 - £1k).

21. Equity dividends

Dividends paid during the year amounted to £4m which is 0.25p per share (2021-£6m).

22. Related party transactions

Identity of related parties

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

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

The Company paid an insurance policy of £142k (2021 - £131k) to Solen Versicheringen AG a 100% owned subsidiary of Shell.

Transactions with key management personnel

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

The Company paid £245k (2021 - £162k) to Shell in respect of the services performed by the General Manager.

Other related party transactions

	Sales to Shell	*Sales to Nynas UK AB*	*Purchases from Nynas UK AB*	*Purchase from Shell*	*Balance due from Shell*	*Balance due from Nynas UK AB*	*Balance due to Shell*	*Balance due to Nynas UK AB*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
2022	17,320	14,975	115	1,762	290	1,237	198	13
2021	15,431	14,278	115	1,217	1,657	1,643	326	12

During the year the Company paid total management fees to Nynas UK AB of £115k (2021 – £115k) in respect of management and administrative services provided by that related party.

In 2022 crude held at Tranmere was returned to the refinery and sold to each Shareholder equally at market value. This resulted in an extraordinary profit of £1.49m.

23. Ultimate parent undertaking and controlling party

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

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