

Grangemouth Energy Company Limited

Annual report and financial statements

Registered number 11384522

31 December 2022

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Strategic report for the year ended 31 December 2022

The directors present their Strategic report on the Company for the year ended 31 December 2022.

Review of business and future developments

Grangemouth Energy Company Limited ("the Company") is constructing a new energy plant on the Grangemouth site (the "New Energy Project", (NEP)). The Company anticipates that the plant will commence commercial operations once construction is complete and the plant is fully commissioned.

Once NEP enters commercial operations, the Company will purchase steam and power from Grangemouth CHP Limited and use this, together with its own production of steam and power from the NEP, to supply its customers on the Grangemouth site. Commercial agreements are already in place, which will become active once the plant becomes operational.

Until the NEP becomes operational, the Company's shareholders will provide funding via loans to enable engineering, procurement and construction (EPC) activities to complete the project. Once operational, the Company's income under the new supply agreements with its customers will allow it to repay the shareholder loans.

The Company has recognised an exceptional impairment charge of £69,463,000 for the year ended 31 December 2022, in relation to the tangible fixed assets. The recent trading performance of the O&P UK business has been challenging in the midst of market volatility that has seen very high natural gas prices. Consequently, operating rates have remained constrained. The impairment loss was based on a value in use calculation. The business valuation was negatively impacted by lower than expected cash flows within the current business plan, reflecting the challenging economic and competitive conditions expected in the near term for the site.

On 30 December 2021, Petroineos Refining Limited, the minority related party shareholder, gave notice to stop investing in the energy project and planned to exit as a shareholder. Any future funding after this date will be provided solely by INEOS Grangemouth Limited, subsequently on 5 April 2022, due to escalating costs on the new energy project caused by delays due to COVID working restrictions and impact to commodity prices, the directors took the decision to temporarily suspend the project. At the date of signing the financial statements the length of the subsequent delay and the impact to the ultimate operational date of the plant is not known.

As at 31 December 2022, the Company has drawn down £ 318,944,000 (2021: £186,967,000) from their shareholder loans.

Results and dividends

The loss for the financial year before taxation was £83,594,000 (2021: loss of £160,000). The directors do not propose the payment of a dividend (2021: £nil).

Strategy

The Company's strategic aim is to construct facilities which will provide safe, reliable and economic supplies of steam and power to its customers on the Grangemouth site.

Strategic report for the year ended 31 December 2022 (continued)

Key performance indicators (KPIs)

The Company uses a number of financial and non-financial key performance indicators ("KPIs") to measure performance, which are monitored against budget and the prior year.

The main financial KPI for the business is earnings before interest, taxation, depreciation, amortisation and exceptional items ("EBITDA before exceptional items"). EBITDA before exceptional items for the Company for the year ending 31 December 2022 was a loss of £1,563,000 (2021: loss of £208,000). The Company also closely monitors fixed costs against budget and prior year.

The Company uses a number of other non-financial key performance indicators to measure performance including health, safety and environmental ("SHE") metrics such as Occupational Safety and Health Administration ("OSHA") incident and injury rates to measure the safe working of employees and contractors. Other KPIs include monitoring the reliability of operating assets and working capital ratios of the Company.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of INEOS Grangemouth Limited which include those of the Company are discussed in the Group's annual report.

Approved by the Board of Directors and signed on behalf of the Board of Directors.



C G Mound
Director

4 July 2023

Registered number 11384522

Directors' report for the year ended 31 December 2022

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

Principal activities

The Company is constructing facilities to provide steam and power to the Grangemouth site and expects to start commercial operations once the plant has been commissioned.

Once the plant has been commissioned, the Company will be engaged in the generation of steam and power for sale to its customers based on the Grangemouth site.

Results and dividends

Results and dividends are discussed in the Strategic report.

Future developments

Future developments are discussed in the Strategic report.

Post balance sheet events

There are no significant events following the balance sheet date.

COVID-19 and the Ukraine conflict

The Company continue to implement contingency plans for the COVID-19 pandemic, with the primary objective of maintaining the safety of personnel and the reliable operation of the Company's plants.

The chemical industry is deemed as essential, critical infrastructure by governments across the world. Throughout the pandemic, all of the Company plants have continued to operate fully and supply chains have operated without significant disruption. Protecting employees and ensuring that they remain healthy has been the first priority of the Company. All plants have sufficient resources and have implemented measures to ensure that this remains the case throughout the pandemic, taking action to ensure reliability of service has been maintained despite a more challenging operating environment.

The Company does not have operations in Belarus, Russia or Ukraine. During 2021 and 2022 no revenue was generated in these countries by the Company. The Company is not currently experiencing any material disruption to its operations and does not foresee any direct impact as a result of the conflict, but will continue to monitor the evolving situation closely.

Whilst there is still uncertainty due to the COVID-19 pandemic and the disruption on the energy market resulting from the conflict in Ukraine, the Directors have undertaken a rigorous assessment of the potential impact on demand for the Company's products and services and the impact on margins for the next 12 months and the Directors do not expect a material impact on the Company's ability to operate as a going concern.

Directors' report for the year ended 31 December 2022 (continued)

Going concern

The directors have considered the Company's projected future cash flows and working capital requirements for a period of at least 12 months from signing of these financial statements. As at 31 December 2022, the Company had net liabilities of £83,754,000 (2021: *net liabilities of £160,000*). The Company held cash of £325,000 (2021: *£556,000*) and loans and borrowings of £318,944,000 (2021: *£186,967,000*). The loss for the year was £83,594,000 (2021: *loss of £181,000*).). The directors have stress tested the projected future cash flows through taking account of reasonable possible changes in performance to determine the level of support that may be required from the parent company. The directors have received confirmation that the parent, INEOS Industries Limited, will continue to support the Company for at least the 12 months from signing of these financial statements.

After making enquiries, the directors have a reasonable expectation that the parent's going concern assessment confirms that there is sufficient forecast committed liquidity headroom for the parent to provide this support and the Company will therefore have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Company continues to adopt the going concern basis in preparing its financial statements.

Financial risk management

The Company is funded by loans from its shareholders and therefore has no direct exposure to price, credit, liquidity, interest rate or debt market risk.

Directors

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

S M Collings

P Q Grant

C G Mound

X Wang

Streamlined Energy and Carbon Reporting (SECR)

The SECR disclosures relating to the Company are included within the SECR disclosures made in the annual report of INEOS Industries Limited, the parent undertaking of the largest group of undertakings to consolidate these financial statements. The Company has taken advantage of the exemption from the requirement to make SECR disclosures in these financial statements.

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, noise emissions, human health and safety, process safety and risk management and the clean-up of contaminated sites. Many of our operations require permits and controls to monitor or prevent pollution. We have incurred, and will continue to incur, substantial ongoing capital and operating expenditures to ensure compliance with current and future HSSE laws, regulations and permits or the more stringent enforcement of such requirements.

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

Directors' report for the year ended 31 December 2022 (continued)

Statement of directors' responsibilities in respect of the financial statements

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

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

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a 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

During the year Deloitte LLP were re-appointed as auditor of the Company and have expressed their willingness to continue in office as auditor pursuant to Section 485-488 of the Companies Act 2006. Appropriate arrangements have been put in place for them to be deemed re-appointed in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board of Directors.



C G Mound
Director

4 July 2023

Registered number 11384522

Independent auditor's report to the members of Grangemouth Energy Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Grangemouth Energy Company Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Profit and Loss Account;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 18.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Independent auditor's report to the members of Grangemouth Energy Company Limited *(continued)*

Report on the audit of the financial statements *(continued)*

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditor's report to the members of Grangemouth Energy Company Limited *(continued)*

Report on the audit of the financial statements *(continued)*

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

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, Money Laundering regulations, Health and Safety at work legislation, Data Protection Act, Tax legislation and Bribery Act; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, IT, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

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

- Impairment of tangible assets pinpointed to the New Energy Project. We have challenged the reasonableness of the future cash flow assumptions used in the value in use model, with focus on key assumptions including natural gas pricing, discount rate and growth rate used. The EBTIDA run rate year to date has been reviewed and compared to budget and forecast. Furthermore, sensitivities and breakeven analysis have been performed to understand the circumstances which would result in a different impairment being recognised. We have performed a review of management's control procedures including review of the impairment model and we have performed a review of the mathematical accuracy of the model. We also engaged valuation experts to assess the reasonableness of the discount rate used in the calculation.

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

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

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

Independent auditor's report to the members of Grangemouth Energy Company Limited (*continued*)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed



Matthew Hughes BSc (Hons) ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

4 July 2023

Profit and Loss Account

for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Cost of sales		(1,910)	(295)
Exceptional cost of sales	2	(69,463)	-
Total cost of sales		(71,373)	(295)
Gross loss		(71,373)	(295)
Administrative expenses		(137)	(16)
Operating loss	3	(71,510)	(311)
Interest receivable and similar income	5	-	276
Interest payable and similar expenses	6	(12,084)	(125)
Loss before taxation		(83,594)	(160)
Tax on loss	7	-	(21)
Loss for the financial year		(83,594)	(181)

All activities of the Company relate to continuing operations.

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

Balance Sheet
as at 31 December 2022

	Note	2022 £000	2021 £000
Fixed assets			
Tangible assets	8	257,986	209,572
		<u>257,986</u>	<u>209,572</u>
Current assets			
Debtors	9	8,083	233
Cash at bank and in hand		325	556
		<u>8,408</u>	<u>789</u>
Creditors: amounts falling due within one year	10	(84,539)	(76,102)
Net current liabilities		<u>(76,131)</u>	<u>(75,313)</u>
Total assets less current liabilities		<u>181,855</u>	<u>134,259</u>
Creditors: amounts falling due after more than one year	11	(265,609)	(134,419)
Net liabilities		<u>(83,754)</u>	<u>(160)</u>
Capital and reserves			
Called up share capital	14	1	1
Profit and loss account		(83,755)	(161)
Total deficit		<u>(83,754)</u>	<u>(160)</u>

These financial statements on pages 10 to 27 were approved by the Board of Directors on 4 July 2023 and were signed on its behalf by:



C G Mound
Director
Registered number 11384522

Statement of Changes in Equity

for the year ended 31 December 2022

	Called up share capital £000	Profit and loss account £000	Total equity/(deficit) £000
Balance at 1 January 2021	1	20	21
Total comprehensive expense for the year, comprising			
Loss for the financial year	-	(181)	(181)
Total comprehensive expense for the year	-	(181)	(181)
Balance at 31 December 2021	1	(161)	(160)
	Called up share capital £000	Profit and loss account £000	Total deficit £000
Balance at 1 January 2022	1	(161)	(160)
Total comprehensive expense for the year, comprising			
Loss for the financial year	-	(83,594)	(83,594)
Total comprehensive expense for the year	-	(83,594)	(83,594)
Balance at 31 December 2022	1	(83,755)	(83,754)

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements)

1 Accounting Policies

Grangemouth Energy Company Limited (the "Company") is a private limited company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The registered office address is Hawkslease, Chapel Lane, Lyndhurst, Hampshire, England, SO43 7FG.

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

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

INEOS Grangemouth Limited is the parent undertaking that includes the Company in its consolidated financial statements. INEOS Grangemouth Limited is a company incorporated in the UK. The consolidated financial statements of INEOS Grangemouth Limited are available to the public and may be obtained from The Company Secretary, Hawkslease, Chapel Lane, Lyndhurst, Hampshire, SO43 7FG.

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

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs and;
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of INEOS Grangemouth 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;
- Disclosures required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in respect of the cash flows of discontinued operations;
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*;
- Certain disclosures required by IFRS 15 *Revenue from Contracts with Customers*; and
- Certain disclosures required by IFRS 16 *Leases* in respect of leases for which the Company is a lessee.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 18.

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

1 Accounting Policies (continued)

1.1 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: derivative financial instruments, financial instruments classified as fair value through profit and loss or fair value through other comprehensive income.

1.2 Going concern

The directors have considered the Company's projected future cash flows and working capital requirements for a period of at least 12 months from signing of these financial statements. As at 31 December 2022, the Company had net liabilities of £83,754,000 (2021: net liabilities of £160,000). The Company held cash of £325,000 (2021: £556,000) and loans and borrowings of £318,944,000 (2021: £186,967,000). The loss for the year was £83,594,000 (2021: loss of £181,000). The directors have stress tested the projected future cash flows through taking account of reasonable possible changes in performance to determine the level of support that may be required from the parent company. The directors have received confirmation that the parent, INEOS Industries Limited, will continue to support the Company for at least the 12 months from signing of these financial statements.

After making enquiries, the directors have a reasonable expectation that the parent's going concern assessment confirms that there is sufficient forecast committed liquidity headroom for the parent to provide this support and the Company will therefore have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Company continues to adopt the going concern basis in preparing its financial statements.

1.3 Foreign currency

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

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

1 Accounting Policies (continued)

1.4 Non-derivative financial instruments

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

Trade and other debtors

Trade and other debtors are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition or issue. Subsequent to initial recognition they are tested for classification as per IFRS 9. If the trade debtors satisfy the criteria for cash flow characteristics test and business model test as per IFRS 9, then they are recognised at amortised cost. If they do not qualify for being recognised at amortised cost they are recognised at fair value through profit or loss.

Trade and other creditors

Trade and other creditors are recognised initially at fair value less transaction costs that are directly attributable to the acquisition or issue. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

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.

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. Depreciation commences from the date an asset is brought into service. Land and assets in the course of construction are not depreciated. The estimated useful lives are as follows:

- Right-of-use assets 2 - 22 years

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

1.6 Impairment of financial assets

Trade and other debtors

The Company applies the simplified approach when providing for expected credit losses prescribed by IFRS 9 for its trade debtors and contract assets. This approach requires the Company to recognise the lifetime expected loss provision for all trade debtors taking in consideration historical as well as forward-looking information.

Financial assets which are considered low risk are not provided for impairment by the Company.

An impairment loss in respect of a debt carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

1 Accounting Policies (continued)

1.7 Impairment of non-financial assets excluding inventories and deferred tax assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are assessed at the end of the reporting period to determine whether there is any indication of impairment.

For other intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at the end of the reporting period.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount is the greater of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and 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 and amortisation, if no impairment loss had been recognised.

1.8 Interest receivable and Interest payable

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, borrowing costs incurred during the temporary suspension will not be capitalised. Interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

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

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

1 Accounting Policies (continued)

1.9 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 profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

1.10 IFRS 16 Leases

At 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.

Company as a lessee

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 and lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, 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.

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

1 Accounting policies (continued)

1.10 IFRS 16 Leases (continued)

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, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease payments include 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 paid under residual value guarantees less any lease incentives receivable. 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 a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are expensed in the period in which the event or condition that triggers the payment occurs.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect 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 in-substance fixed lease payments, a change in the assessment of whether the Company is reasonably certain to exercise an option to purchase the underlying asset, a change in future lease payments arising from a change in an index or rate, or if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee.

When the lease liability is remeasured in this way and there has been no change in the scope of the lease, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to all leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. The Company also applies the lease of low-value assets recognition exemption to leases of assets that are valued below £10,000. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

1.11 Impact of new standards and interpretations

There are no amendments to accounting standards that are effective for the year ended 31 December 2022 which have had a material impact on the Company.

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

2 Exceptional cost of sales

The Company has recognised an exceptional impairment charge of £69,463,000 for the year ended 31 December 2022, in relation to the tangible fixed assets. The recent trading performance of the O&P UK business has been challenging in the midst of market volatility that has seen very high natural gas prices. Consequently, operating rates have remained constrained. On 5 April 2022, due to escalating costs of the new energy project, the directors took the decision to temporarily suspend the project. At the date of signing the financial statements the length of the subsequent delay and the impact to the ultimate operational date of the plant is unknown. The business valuation was negatively impacted by lower than expected cash flows within the current business plan, reflecting the challenging economic and competitive conditions expected in the near term for the site. The impairment loss was based on a value in use calculation.

3 Operating loss

Included in operating loss are the following:

	2022 £000	2021 £000
Impairment of owned tangible fixed assets (Note 2)	69,463	-
Depreciation of right-of-use tangible fixed assets (Note 8)	484	103
Exchange loss	1,333	189

Auditor's remuneration:

	2022 £000	2021 £000
Audit of these financial statements	18	13

4 Directors and employees

The Company had no employees during the year (2021: none). No directors received any fees or remuneration in respect of their services as a director of the Company during the financial year (2021: none). The directors are remunerated for their qualifying services by another group company for contributions to the group as a whole and it is not possible to apportion this to the Company.

5 Interest receivable and similar income

	2022 £000	2021 £000
Net foreign exchange gain	-	276
Total interest receivable and similar income	-	276

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

6 Interest payable and similar expenses

	2022 £000	2021 £000
Interest expense on financial liabilities measured at amortised cost	11,279	2
Interest on lease liabilities	171	123
Net foreign exchange loss	634	-
Total interest payable and similar expenses	12,084	125

Interest payable and similar expenses includes interest payable to group undertakings of £10,766,000 (2021: £4,869,000) and interest payable to related parties of £3,455,000 (2021: £2,465,000).

Interest expense capitalised during the year was £2,944,000 (2021: £7,334,000), this includes interest payable to group undertakings of £2,072,000 (2021: £4,869,000), and interest payable to related parties of £872,000 (2021: £2,465,000). No further interest was capitalised following the decision to suspend the project in April 2022. Interest on lease liabilities includes interest payable to group undertakings of £130,000 (2021: £123,000).

7 Tax on loss

Recognised in the profit and loss account

	2022 £000	2021 £000
UK corporation tax	-	16
Tax on loss for the year	-	5
Adjustment in respect of prior periods	-	-
Tax charge / (credit) on loss	-	21

Reconciliation of effective tax rate

	2022 £000	2021 £000
Tax on loss	-	21
Loss before taxation	(83,594)	(160)
Loss before taxation multiplied by the standard rate of tax in the UK of 19% (2021: 19%)	(15,883)	(30)
Adjustment in respect of prior periods	-	5
Deferred tax not recognised	15,883	46
Total tax charge	-	21

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

7 Tax on loss (continued)

The Finance Bill 2021 which increased the rate of corporation tax to 25% on profits over £250,000 from April 2023 was substantively enacted on 24 May 2021. As a result, deferred tax in the United Kingdom at 31 December 2022 are measured at 25%.

Deferred tax

Due to uncertainty in its future recovery, no deferred tax asset has been recognised in the financial statements. The unprovided deferred tax asset at 31 December 2022 totalled £3,601,000 (2021: £90,000) which all relates to losses. The rate of deferred tax applied at 31 December 2022 is 19% (2021: 25%).

8 Tangible assets

	Assets under construction £000	Right-of-use assets £000	Total £000
Cost			
Balance at 1 January 2022	207,521	2,179	209,700
Additions	111,104	7,257	118,361
Balance at 31 December 2022	318,625	9,436	328,061
Accumulated depreciation			
Balance at 1 January 2022	-	(128)	(128)
Depreciation charge for the financial year	-	(484)	(484)
Exceptional impairment charge for the financial year	(69,463)	-	(69,463)
Balance at 31 December 2022	(69,463)	(612)	(70,075)
Net book value			
At 31 December 2021	207,521	2,051	209,572
At 31 December 2022	249,162	8,824	257,986

The exceptional impairment charge of £69,463,000 for the year ended 31 December 2022 reflects the impairment of the tangible fixed assets relating to O&P UK business located at the Grangemouth site (see note 2).

Tangible fixed assets under construction

The amount of borrowing costs capitalised during the year was £2,944,000 (2021: £7,334,000) with a capitalisation rate of 5.53 % (2021: 5.53%).

Land and buildings

The net book value of land and buildings comprises:

	2022 £000	2021 £000
Short leasehold	8,824	2,051

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

8 Tangible assets (continued)

Right-of-use assets

The Company leases land and buildings which are classified as right-of-use assets.

	Land and Buildings £000	Right-of-use assets total £000
Cost		
Balance at 1 January 2022		
Change in fair value	2,179	2,179
	7,257	7,257
Balance as at 31 December 2022	9,436	9,436
Accumulated depreciation		
Balance at 1 January 2022		
Depreciation charge for the financial year	(128)	(128)
	(484)	(484)
Balance as at 31 December 2022	(612)	(612)
Net book value		
At 31 December 2021	2,051	2,051
At 31 December 2022	8,824	8,824

See Note 13 for the lease obligations related to right-of-use assets.

9 Debtors

	2022 £000	2021 £000
Prepayments		
Amounts owed by group undertakings	7,962	45
Taxation and social security	9	-
	112	188
	8,083	233
Due within one year		
Due after more than one year	8,083	233

Amounts owed by group undertakings attract interest at commercial rates that are either subject to standard trading terms or are repayable on demand.

The amounts not yet due after impairment losses as of the end of the reporting period are deemed to be collectable on the basis of established credit management processes such as regular analyses of the credit worthiness of our customers and external credit checks where appropriate for new customers. At 31 December 2021 and 2022 there were no significant trade, group undertakings or other debtor balances not past due that were subsequently impaired.

During the year, the Company has not experienced a significant deterioration in the quality of debtor balances due to the current economic conditions.

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

10 Creditors: amounts falling due within one year

	2022 £000	2021 £000
Trade creditors		
Amounts owed to group undertakings	12,876	924
Accruals	184	356
Deferred income	374	10,727
Loans due to related parties (Note 12)	2,743	2,744
Lease liabilities (Note 13)	64,654	61,199
	3,708	152
	<u>84,539</u>	<u>76,102</u>

Amounts owed to group undertakings attract interest at commercial rates that are either subject to standard trading terms or are repayable on demand.

Lease liabilities includes amounts owed to group undertakings of £282,000, (2021: £152,000).

11 Creditors: amounts falling due after more than one year

	2022 £000	2021 £000
Amounts owed to group undertakings (Note 12)		
Deferred income	254,290	125,768
Lease liabilities (Note 13)	6,521	6,521
	4,798	2,130
	<u>265,609</u>	<u>134,419</u>

Amounts owed to group undertakings attract interest at commercial rates that are either subject to standard trading terms or are repayable on demand.

Lease liabilities includes amounts owed to group undertakings of £2,130,000 (2021: £2,130,000).

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

12 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.

	2022 £000	2021 £000
Creditors falling due within one year		
Related party loan (Note 10)	64,654	61,199
	<u>64,654</u>	<u>61,199</u>
Creditors falling due after more than one year		
Intercompany loan (Note 11)	254,290	125,768
	<u>254,290</u>	<u>125,768</u>

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2022 £000	Carrying amount 2022 £000	Face value 2021 £000	Carrying amount 2021 £000
Intercompany loan	£	3.25%	2043	254,290	254,290	125,768	125,768
Related party loan	£	5.53%	2043	64,654	64,654	61,199	61,199
				<u>318,944</u>	<u>318,944</u>	<u>186,967</u>	<u>186,967</u>

On 30 December 2021, Petroineos Refining Limited, a related party, gave notice to stop investing in the energy project and requested early repayment of the loan in line with the contractual terms. As a result, the loan has been reported within current liabilities on the balance sheet at 31 December 2021 and 31 December 2022.

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

13 Lease obligations

<i>Analysed as:</i>	2022	2021
	£000	£000
Current lease liabilities (Note 10)	3,708	152
Non-current lease liabilities (Note 11)	4,798	2,130
	<u>8,506</u>	<u>2,282</u>
<i>Maturity analysis- contractual undiscounted cash flows:</i>	2022	2021
	£000	£000
Less than one year	3,732	-
Between one and five years	3,612	687
More than five years	3,092	3,309
Total undiscounted lease liabilities at 31 December	<u>10,436</u>	<u>3,996</u>

14 Called up share capital

	I Ordinary 2022	P Ordinary 2022	NV Ordinary 2022	Called up share capital Total 2022
On issue at 1 January and 31 December 2022 – fully paid	<u>704</u>	<u>250</u>	<u>46</u>	<u>1,000</u>
<i>Allotted, called up and fully paid</i>			2022	2021
			£000	£000
704 (2021: 704) I ordinary shares at £1 each			1	1
250 (2021: 250) P ordinary shares at £1 each			-	-
46 (2021: 46) NV ordinary shares at £1 each			-	-
			<u>1</u>	<u>1</u>

The holders of I 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.

The holders of P 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.

The holders of NV ordinary shares are entitled to receive dividends as declared from time to time and are not entitled to vote at meetings of the Company.

Dividends

A dividend has not been paid or declared in the year (2021: nil).

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

15 Capital commitments

Outstanding capital expenditure on property, plant and equipment authorised by the Board and for which contracts had been placed as at the 31 December 2022 by the Company amounted to approximately £6,759,153 (2021: £36,897,000).

16 Related parties

Related parties comprise of entities controlled by the shareholders of INEOS Limited, the ultimate parent company of Grangemouth Energy Company Limited.

Trading transactions

During the year, the Company entered into the following trading transactions with related parties:

	Recovery of costs		Purchases of goods and services	
	2022 £000	2021 £000	2022 £000	2021 £000
INEOS Group Holdings S.A.related parties	-	-	15	6
INEOS Infrastructure (Grangemouth) Limited	-	232	22	46
	<u>-</u>	<u>232</u>	<u>37</u>	<u>52</u>

Outstanding balances

	Amounts owed by related parties		Amounts owed to related parties	
	2022 £000	2021 £000	2022 £000	2021 £000
Petroineos Refining Limited	-	-	64,654	61,199
INEOS Group Holdings S.A.related parties	-	-	-	13
INEOS Infrastructure (Grangemouth) Limited	-	-	1	1
	<u>-</u>	<u>-</u>	<u>64,655</u>	<u>61,213</u>

In general, any trading balances with related parties are priced based on contractual arrangements and are to be settled in cash. The transactions are made on terms equivalent to those that prevail in an arm's length transaction.

Amounts owed to Petroineos Refining Limited are unsecured, have interest applied at 5.53% and matures in 2043. See Note 12 for further details relating to this loan and Note 6 for further details of interest charges.

None of the related party balances are secured and no guarantees have been given or received. There were no provisions for doubtful debt related to any related parties as at 31 December 2022 (2021: £nil).

Notes to the financial statements for the year ended 31 December 2022 (forming part of the financial statements) (continued)

17 Controlling parties

The immediate parent undertaking is INEOS Grangemouth Limited.

The ultimate parent company at 31 December 2022 was INEOS Limited, a Company incorporated in the Isle of Man.

INEOS Grangemouth Limited, a Company incorporated in the UK, is the smallest group of undertakings to consolidate these financial statements. Copies of the financial statements of INEOS Grangemouth Limited can be obtained from the Company Secretary at the registered office: Hawkslease, Chapel Lane, Lyndhurst, Hampshire, SO43 7FG.

INEOS Industries Limited, a Company incorporated in the UK, is the parent undertaking of the largest group of undertakings to consolidate these financial statements. Copies of the financial statements of INEOS Industries Limited can be obtained from the Company Secretary at the registered office: Hawkslease, Chapel Lane, Lyndhurst, Hampshire, SO43 7FG.

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

18 Accounting estimates and judgements

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

Impairment Reviews

FRS 101 require management to test for the impairment of tangible assets with finite lives if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

An impairment test requires an assessment as to whether the carrying value of assets can be supported by its recoverable amount. Management calculates the recoverable amount based on the net present value of the future cash flows derived from the relevant assets, using cash flow projections which have been discounted at an appropriate discount rate.

In calculating the net present value of future cash flows, certain assumptions and estimates are required to be made in respect of highly uncertain matters, including management's expectation of:

- growth rates of various revenue streams
- long term growth rates
- future margins
- the selection of an appropriately risk adjusted discount rate; and
- the determination of terminal values.

Changing the assumptions selected by management, in particular the discount rate used in the present value calculation, could significantly affect the Group's impairment evaluation and results.

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, the presence or absence of competition, lower than expected asset utilisation from events such as planned outages, strikes and hurricanes, technical obsolescence or lower than anticipated sale of products with capitalised intellectual property rights could result in shortened lives or impairment. Changes in discount rates could also lead to impairment (Note 8).